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CORRESPONDENCE BETWEEN THE HON. WILLIAM
NAPIER, ON BEHALF OF THE ENGLISH
SHAREHOLDERS OF THE GRAND TRUNK RAILROAD
COMPANY AND THE HON. WILLIAM CAYLEY

1856

CORRESPONDENCE

BETWEEN

THE HON. WILLIAM NAPIER,

ON BEHALF OF THE

**ENGLISH SHAREHOLDERS OF THE GRAND TRUNK
RAILROAD COMPANY,**

AND THE

DEFENDANT

vs.

WILLIAM VAILER.

IN EQUITY.

SHARPE & CO. SHAREHOLDERS OF THE GRAND TRUNK

RAILROAD COMPANY.

7

CORRESPONDENCE

BETWEEN

THE HON. WILLIAM NAPIER,

ON BEHALF OF THE

**ENGLISH SHAREHOLDERS OF THE GRAND TRUNK
RAILROAD COMPANY,**

AND THE

HON. WM. CAYLEY,
(INSPECTOR GENERAL)

WITH

**INTRODUCTORY MEMORANDUM AND EXTRACTS FROM DEBATES,
&c.**

Toronto:

**PRINTED BY S. D'ORBISHIRE & A. F. ESTABROOK,
at the Queen's Most Excellent Majesty's**

1856.



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MEMORIAL

TO

HIS EXCELLENCY THE GOVERNOR GENERAL

IN COUNCIL,

On behalf of the Shareholders of the Grand Trunk Railway Company of Canada, setting forth the Basis of the Scheme of Financial Assistance, which it is proposed should be granted by the Government and Legislature for the relief of the Enterprise, for the re-establishment of its Commercial Credit and to secure the permanent prosperity of the Provinces.

BY THE

HONORABLE WILLIAM NAPIER.

MEMORIAL

TO HIS EXCELLENCY THE GOVERNOR GENERAL

IN COUNCIL

On behalf of the shareholders of the Grand Trunk Railway Company of Canada, acting both the basis of the System of Financial Assistance, which it is proposed should be granted by the Government and Legislature for the relief of the Enterprise, for the re-establishment of the Government Credit and to secure the permanent prosperity of the Province.

BY THE

HONORABLE WILLIAM NAPIER.



MEMORIAL.

MAY IT PLEASE YOUR EXCELLENCY.

This Memorial (on behalf of the Shareholders of the Grand Trunk Railway Company of Canada, setting forth the Basis of the Scheme of Financial Assistance, which it is proposed should be granted by the Government and Legislature for the relief of the Enterprise, for the re-establishment of its Commercial Credit, and to secure the permanent prosperity of the Province)
HUMBLY SHEWETH :

That the Shareholders have learnt with regret and alarm that causes, which it is useless here to detail—and some of which could scarcely have been foreseen—have placed the Undertaking in a position so perilous, that without prompt and material aid from the Province, the interest falling due on the Provincial Bonds for the accruing half year, cannot be met by the Company ; and the most important features of the scheme, viz: the great Victoria Bridge and the extension of the Line to its western terminus cannot possibly be put in execution ; results, the anticipation of which alone has sufficed to destroy the credit of the Enterprise by reducing the market value of the shares to 50 per cent. discount, and to cast a cloud over the commercial prospects of the most favored Colony of Great Britain.

A serious and careful consideration of the circumstances of the case—not merely in view of its actual necessities, but looking to the comprehensive completion and permanent re-establishment of this the main artery, and also to the future subsidiary Railway Enterprise of the Country ; and with due regard to the experience of similar Undertakings in other countries, when in the same condition, and to those means which have been successfully adopted for the restoration of their financial credit—has led the Shareholders to believe that the same principle of relief, if at once applied by the Government and Legislature, could not possibly fail to ensure results mutually advantageous to the Shareholders and to the Country.

BASIS OF THE SCHEME.

The requirements to be attained are two-fold,

1st. Capital sufficient for the completion of the Undertaking, estimated (in the original calculations) not to exceed the sum of £1,560,000.

2nd. The resuscitation of the market value of the Enterprise; or, in other words, the restoration of the Shares to their par value.

The attainment of the former does not necessarily ensure the accomplishment of the latter; for the reasons, that the prospects of the line in the Money Market have already been seriously damaged, and that if left alone to its own gradual, though sure development, and without any external support, looking to the magnitude of the Enterprise and to the period of time which must elapse until the increase of traffic to result from the completion of the Victoria Bridge can be accomplished, it will probably be several years before the profits shall afford a dividend on the Share Capital of 5 per cent.; and, during which time therefore, the Company's Debenture and Share Capital must necessarily remain at a depreciation which is ruinous to the Shareholders and damaging to the Railway development and Commercial Credit of the Provinces.

Experience in Europe and elsewhere, particularly in France, in Sardinia, in Austria, in India and in Australia, has more or less proved, that one measure alone is completely adequate, under such circumstances, to maintain the credit of Railway undertakings in the vicissitudes of their infancy, during their construction and pending the gradual development of their traffic up to a certain point, viz:—

The support of the State itself or in other words the practical demonstration by the people of the Country, of confidence in their own commercial future, which is best given by a Guarantee of a minimum dividend for a term of years, on the share Capital invested.

The consideration for this aid and for any possible risks of temporary loss (a risk however which has not in any one previous instance resulted in any loss) has been and is, the reversion of the Undertaking in absolute property to the State at the expiration of a term of years—a sacrifice in return for the Guarantee which is cheerfully made by the individual Stockholders, and a boon of the greatest magnitude to the Country, the more especially to a young

State as Canada, the magnitude of whose ultimate commercial future it would be presumptuous to attempt to estimate.

Looking therefore to all the circumstances under which the capital of the Grand Trunk Company was subscribed, and to the lamentable prospects of the Undertaking, if left in its existing condition,—the Shareholders earnestly appeal to the Government and Legislature of Canada for a pledge of confidence in this great national Railway Enterprise by a Guarantee of a dividend of 5 per cent. on the share capital of the Undertaking, after the payment of all its fixed charges; the consideration to be, the reversion of the Undertaking in absolute property and in the most efficient working order, at the expiration of, say, 99 years.

Under ordinary circumstances in such Guarantees, the risk of any possible loss is of course borne by the State, but in this particular instance, remembering the great liberality of the Province towards the Enterprise and the natural disappointment of the people of Canada at its present condition, and looking to their own individual conviction of the ultimate realisation of all the prospects originally hoped for, the Shareholders are anxious also to give a strong mark of their confidence; and propose, that should any deficiency ensue during the first five years after the completion of the line to Toronto, in respect of the Guarantee, and wishing to preserve intact the surplus revenues of the Provinces, they are ready to agree and to give proper security, that all such annual deficiency, during that time, shall be subscribed by the Company, and be converted into Share Capital, under a like Guarantee by the Provinces, and the amount of which shall be estimated and allotted pro rata, among the holders of the Stock, at the time of the granting of the Guarantee.

The advantages which would necessarily result, are as follows:—

That the Commercial Credit of the Undertaking would immediately be re-established.

That the unissued Share and Debenture Capital would at once be realised at par.

That the interest on the Provincial Debentures would be paid by the Company; the completion of the Line to its western terminus and the construction of the Victoria Bridge would be rapidly accomplished; and any probable deficiency during the first five years, in respect of the Guarantee, would be provided for;

and all this without the Province being called on to subscribe an additional pound of Capital.

That the doubts now existing in the Money Market, and naturally arising from the existing circumstances ; from individual ignorance of the commercial prospects of Canada ; and from the disappointment consequent on the published accounts of the traffic receipts on the only section of the line hitherto open, will be completely removed ; and that the commercial credit of the Province will be re-established, the more firmly that in the time of difficulty and of gloom, the Government, the Legislature, and people of the Country had shewn, not only their honor in respect of their national obligations, not merely their readiness to share with the Stockholder the risks or profits of the great national Railway enterprise ; but that adopting the commercial principles established by the railway experience of Europe, they had given, when appealed to, the most complete proof of confidence in their resources and material progress.

It should be added that proper security for the conversion of the probable deficit in respect of the Guarantee during the first five years, might be given to the Government by many arrangements, one of which would be :

The Guarantee not to take effect until the probable amount of the total deficit during the first five years had been agreed to between the representatives of the Government and of the Company, and until the share capital representing that amount had been subscribed, and a deposit equal to the first year's estimated deficit placed in the hands of Trustees on behalf of the contracting parties, and for the benefit of the Provinces ; and the amount necessary to make good each subsequent year's estimated deficit to be deposited in the like manner.

In case, after the first year, the Company should fail to make such deposit as above prescribed, the deficiency to be a first charge on the net profits of the Undertaking for the year.

The Government to pay 5 per cent. interest on all such deposits.

CALCULATIONS ON WHICH ARE GROUNDED THE ESTIMATES OF LOSS OR GAIN IN RESPECT OF A FIVE PER CENT. GUARANTEE.

It remains now to show what is the estimated risk to the Province and to the Company in respect of any probable deficiency in the Guarantee during the first five years, estimated to be necessary

for the development of the traffic, including the time necessary for the completion of the Line to its Western Terminus and for the construction of the Victoria Bridge.

But in the first place, the Company would engage to complete the Line to the Western Terminus in one, and the Victoria Bridge within three complete working seasons from the date of the granting of the Guarantee, thus affording two years for the development of the through traffic, before the termination of the Company's liability in respect to the estimated deficit on the Guarantee.

It is evident then that the estimated receipts of the Line must be the basis of the calculations as to any deficiency or excess on the Guarantee of 5 per cent. on the share capital during the first five years.

The estimated receipts therefore must be as carefully ascertained as circumstances will admit of. The experience of Railways in America in districts similarly populated and of a like character, might be fairly adopted as a guide ; but it is fortunate that in this instance, actual experience in Upper and Lower Canada is sufficient to afford data for calculations of the accuracy of which no reasonable doubts can be entertained.

It will be seen on reference to the annexed estimates of traffic (No. 1), during the first five years, that the average receipts are calculated, on the Eastern Section at £15 per mile per week ; on the Western Section, at £25 per mile per week ; and that assuming the working expenses at 50 per cent. on the gross receipts, and deducting all the fixed charges of the Provinces and of the Company, there remains an annual balance available for Dividend of 2.05 per cent. on the share capital.

The liability of the Province therefore, in respect of the 5 per cent. Guarantee, would be 2.95 per cent. per annum during five years, which deficit would be annually converted into share capital under a like Guarantee of five per cent.

The following data are afforded by the actual experience of the Province :

The receipts of the Eastern Section of the Grand Trunk of 428 miles, averaged, during the summer months of the past year.....£18 per mile per week.

During the winter months of the past year.....£12 " "



Thus giving a general average
of.....£15 per mile per week.

Without adding one pound sterling for the development of the traffic reasonably to be expected during the first five years, the receipts on the Eastern Section are only calculated at the past experience of £15 per mile per week. As regards the Western Line of 500 miles, on the section from Montreal to Brockville of 125 miles, passing through a district which is rather under the average of the whole, the receipts during the Winter from the opening of the Line on the 17th Nov. last year, to the 1st April, averaged £12 per mile per week, and were for the last week of that period £18 per mile per week. On the Toronto and Hamilton Line of forty miles, opened on the 19th Nov. last, the receipts for Passengers alone have averaged during the Winter, £30 per mile, per week; the mean receipts therefor per mile, per week, during the Winter months, on the Eastern and Western extremities of the entire Western section have been £21 per mile per week. The estimated average during the five years is only placed at £25 per mile per week, which calculation is thus subdivided,

Passengers, say.....	£10 per mile, per week
Mails.....	3 " "
Goods.....	12 " "

Total, £25

These are the reasonable data on which is calculated the maximum annual deficit of 2.95 per cent. on the share capital during the first five years, and which it is proposed for that time to convert into share capital under a like Guarantee of 5 per cent. by the Provinces.

By reference to the estimate of traffic for the second period of five years, during which time the through traffic and much subsidiary local traffic would be fairly developed, the receipts are modestly stated for the Eastern section at an increase to £20 per mile per week; for the Western section to £35 per mile, per week; which it will be seen by the annexed estimates for the second period of five years (No. 2), will more than cover the Guarantee of 5 per cent. on the share capital.

For the third period of five years, the receipts are placed for the Eastern Section at £25 per mile, per week; for the Western Sec-

tion at £40 per mile, per week, estimates, (No. 3), the correctness of which cannot reasonably be disputed, and which leave a surplus of 2.80 per cent. on the share capital.

GENERAL APPLICATION OF THE GUARANTEE PRINCIPLE.

In conclusion, the Shareholders would urge upon the Government and Legislature, the application of the principles of a minimum Guarantee for the same consideration, to all the subsidiary Railway Enterprise which shall receive an especial recommendation for the same, by the sanction of the Legislature, as undoubtedly profitable and necessary for the local development of the Provinces, when not in competition with, and where constituting profitable feeders to the National Trunk Line.

The risk of the Guarantees on such local Railways, though assumed by the Government, should be shared in due proportions by the Municipalities of the Districts through which the Lines would pass, or if as feeders to the, main Trunk Line, in due proportions by the Municipalities and by the Grand Trunk Company.

It is evident that the risk on the actual amount guaranteed by the Provinces on the Main Trunk, and on the subsidiary local Enterprise, would not be represented by the total amount of the capital invested; for as soon as the through traffic from West to East, on the Main Line, and the local traffic shall have become developed, the Guarantee on the Trunk would become merely nominal, and would remain only on the subsidiary Railways, which would also in time cover their own liabilities.

The examination to which each independent local Railway or tributary feeder to the Grand Trunk Line, requesting such a Guarantee would be subjected by the Legislature—(the municipality or the Grand Trunk Company, as the case might be, appearing in evidence for or against the same,) would be sufficient protection to preclude any abuse of the privilege, while on the other hand English Capital would thus be obtained to any amount for such a secure investment, and an extraordinary and incalculable commercial impetus would be given by the development of the inexhaustible resources of the country in Wheat, in Timber and in Minerals.

Under the system of Guarantee applied to the Main Trunk Line, the Company in its own interest would not hesitate to make arrangements with, and lease and work on equitable terms, local

Railways already constructed or in course of construction, and which left to their own unaided support, have not hitherto proved remunerative, looking even to the fact, that the profits anticipated are sought from the local development of their districts, rather than from any return upon the Capital invested.

FINALLY.

It will certainly be admitted on investigation of the annexed Estimates of Traffic (Nos. 1, 2, 3,) that they by no means bear a relative proportion in their increase, during a term of fifteen years, to the increase to be anticipated in that time to the population—the assessed value—the productions and Revenue of the Provinces—at least, if the experience of the last fifteen years may be accepted as an indication of the future prosperity of the country; and if this presumption be justified, it produces a double effect in favour of the Guarantee Scheme, for while the probabilities of any deficit on the Guarantee after the first five years would be lessened, the Revenues of the Province would be the more able to bear any moderate loss.

Surely also, if, as is undoubtedly true, the branch lines of railway now made, and proposed, are subscribed for, less as an investment by the resident inhabitants, than for the profit which will accrue to each individual by the facilities to be afforded for traffic and business, and by the increased value to be expected in the whole district and in the towns and villages to be traversed by the railways; and if Municipalities are justified in raising funds for such purpose for the benefit of the common property; surely in like manner the Provinces may reasonably afford to run some trifling risk for the general good; a risk which is undoubtedly reduced to a minimum, and even if incurred after the fifth year, would certainly find its equivalent in the increased prosperity and happiness of the population due to the rapid material progress always induced by railway development.

These suggestions are respectfully submitted to the consideration of His Excellency the Governor General, and of the Government, as the basis of a comprehensive and enlightened scheme which in the opinion of the Shareholders would prove mutually beneficial to the Grand Trunk Company and to the Provinces, and which would confer lasting honor on the Ministry, who should propose and on the Members of the Legislature who

should put the same in execution by an Enactment, applying the Guarantee principle to the Grand Trunk Railway Company, and all Railways especially recommended by the Legislature.

It has thus been shewn that the effect of a minimum guarantee of 5 per cent, dividend on the share capital of the Company would be—

That the credit of the enterprise would be raised to par.

That the Undertaking, including the extension of the Line to its western terminus, and the Victoria Bridge, would be rapidly completed.

That the Confidence of the Provinces in their commercial future would be asserted and established before all the world.

And all this without calling upon the Provinces to raise one shilling—resulting in a combination of mutual advantages to the Provinces and to the Company, which, it is respectfully submitted, no other Scheme can possibly present.

On behalf of the Committee Shareholders of the Grand Trunk Railway Company of Canada.

WILLIAM NAPIER.

Toronto, 22nd April, 1856.

TABLE, NO. 1.
GRAND TRUNK RAILWAY OF CANADA.

Shareholders Propositions of a Guarantee of 5 per cent. on the Share Capital of the Company.

Average Estimate of Receipts and Expenditure; first 5 years.

To 50 per cent. working expenses*	£491,920	By Receipts on 500 miles of Western Section at £25, per mile per week	£ 650,000
" 6 per cent. on Province Bonds		" Receipts on 428 miles of Eastern Section at £15 per mile per week	338,840
£3,111,500	£ 186,690		
" Atlantic and St. Lawrence Lease	73,564		
" 6 per cent. on Company's Bonds,	128,670		
£3,144,500	14,787		
" Reserve 1½ per cent. on gross earnings	403,711		
" Balance available for Dividend £2.05 per cent. on Share Capital, £4,306,400	88,209		
	<u>£983,840</u>		<u>£ 983,840</u>

Leaving annual deficiency to be provided to complete 5 per cent.

Guarantee on Share Capital of £127,111.
Total deficiency for 5 years £635,555, which being converted into Share Capital as proposed will make the total amount of Share Capital at the end of 5 years £4,941,955.
Toronto, April 22, 1856.

WILLIAM NAPIER.

* Divided thus, say 60 per cent. for Eastern Section, and	£199,430
45 per cent. for Western Section,	292,500
	<u>£491,930</u>

TABLE, NO. 2.

GRAND TRUNK RAILWAY OF CANADA.

Shareholders' Proposition of a Guarantee of 5 per cent. on the Share Capital of the Company.

Average Estimate of Receipts and Expenditure ; second 5 years.

To 50 per cent. Working Expenses*	£677,560	By Receipts on 500 miles of Western Section at £35 per mile per week.....	£910,000
" 6 per cent. on Province Bonds, £2,111,500...£186,690		" Receipts on 428 miles of Eastern Section at £20 per mile per week.....	445,120
" Atlantic and St. Lawrence Lease..... 73,564			
" 6 per cent. on Company's Bonds, £2,144,500. 128,570			
" Reserve, 1½ per cent. on gross earnings.. 20,326	409,250		
" To balance available for dividend of £5.43 per cent. on Share Capital of £4,941,955.	288,310		
	£1,355,120		£1,355,120

Thus showing an excess of net profits over the Guarantee of £0.43 per cent.
Toronto, April 22, 1856.

WILLIAM NAPIER.

* Divided thus, say 60 per cent. for Eastern Section, and.....	£288,060
45 per cent. for Western Section,.....	409,500
	£677,560

TABLE, NO. 3.

GRAND TRUNK RAILWAY OF CANADA.

Shareholders' Proposition of a Guarantee of 5 per cent. on the Share Capital of the Company.

Average Estimate of Receipts and Expenditure ; third 5 years.

To 50 per cent. Working Expenses*	£798,200	By Receipts on 500 miles of Western Section, " at £40 per mile per week	£1,040,000
" 6 per ct. on Province Bonds, £3,111,500 ..	£186,690	" Receipts on 428 miles of Eastern Section, " at £25 per mile per week	556,400
" Atlantic and St. Lawrence Lease	73,564		
" 6 per ct. on Company's Bonds, £2,144,500 ..	128,870		
" Reserve, 1½ per cent. on gross earnings ..	33,946		
	412,870		
" Balance available for dividend of £7.80 per cent. on Share Capital £4,941,955 ..	385,330		
	£1,596,400		£1,596,400
Thus showing an excess of net profits over the Guarantee of £2.80 per cent. Toronto, April 22, 1856.		WILLIAM NAPIER.	

* Divided thus, say 60 per cent Eastern Section, and

45 per cent. on Western Section,	£333,200
	466,000
	£799,200

CORRESPONDENCE.

No. 1.

INSPECTOR GENERAL'S DEPARTMENT,

6th May, 1856.

SIR,

I have now the honor, in reply to your request, to furnish you with a Memorandum of the terms on which after much anxious consideration, the Government conceive they would be justified in recommending to Parliament the granting of aid to the Grand Trunk Rail Road. You, Sir, cannot be insensible to the many difficulties which beset this question, or the differences of opinion which exist as to the best mode of disposing of them; and as the further course of the Government may materially be influenced by the opinion which you, as the accredited Agent of the English Proprietary, may entertain of the practical result to be expected from the outline of the scheme which I have sketched, I shall be obliged by you favoring me with your views thereon, which I may submit to His Excellency the Governor General and my Colleagues in the Government.

I have the honor to remain,
yours faithfully,
W. CAYLEY.

To the Honorable
W. NAPIER.

No. 2.

May, 1856.

Proposal for relief to Grand Trunk Railway Company.

1st. The Company to be empowered to issue Preferential Bonds to the amount of £2,000,000 sterling.

2d. The Bonds not to be issued until the Railway is finished and in operation from St. Thomas to Stratford.

3rd. The proceeds of the £2,000,000, to be paid over to the Provincial Agents in London, and released on certificate of Receiver General, on proof of progress of work.

4th. The proceeds to be appropriated as follows, viz :

London to St. Mary's, Stratford and Sarnia	
Branch.....	£450,000
Subsidiary Lines at Port Hope, Cobourg and	
Prescott.....	100,000
Victoria Bridge.....	800,000
St. Thomas and Rivière du Loup.....	525,000
Three Rivers' Branch.....	125,000
	<hr/>
	£2,000,000

5th. The St. Mary's and London Branch, and subsidiary Lines to be completed by the..... 1st. September, 1857.
The Stratford and Sarnia..... 1st. September, 1858.
The Three Rivers and Arthabaska.... 1st. January, 1859.
The Victoria Bridge..... 1st. January, 1860.
The St. Thomas and Rivière du Loup 1st. January, 1860.

If any portion of the Roads above specified originally entitled to the guarantee, be not completed at the date provided, the Company will return to the Government £3,000 sterling for every mile remaining unfinished, credit being given to the Company for so much in payment of the Provincial Guarantee.

REPLY

To the Letter of the Honorable WILLIAM CAYLEY, Inspector General, to the Honorable WILLIAM NAPIER, on behalf of the Shareholders of the Grand Trunk Railway Company of Canada.

TORONTO, 7th May, 1856.

SIR,

I have the honor to acknowledge your favor of the 6th instant, enclosing "a memorandum of the terms on which after much anxious consideration the Government conceive they would be justified in recommending to Parliament the granting of aid to the Grand Trunk Railroad."

Before proceeding, Sir, to give as requested "my opinion as the accredited Agent of the English proprietary of the practical results to be expected from the outline of the Scheme sketched out," I desire notwithstanding the disappointing results now to be considered, to express my great satisfaction that the Government of these Provinces have, by the scheme now presented, acknowledged the principle that aid or relief should be granted to the enterprize in its depreciated financial condition, and I would

further observe that in respectfully submitting the following remarks on such scheme for the information of His Excellency the Governor General and of the Government, I beg leave to offer my best thanks for the Statement in your communication that the further course of the Government "may materially be influenced by my opinion," and it shall, Sir, be my earnest endeavour faithfully to discharge the responsible duty assigned to me, by expressing my opinion as to the Commercial value of the aid proposed by the Government, and also by once more submitting such a scheme of Relief as under the least favourable aspect would be considered to be material assistance by the Shareholders.

Passing over for the present the 2nd and 3rd, and the 1st part of the 5th paragraph of the Memorandum, I will proceed in the first instance, to compare the obligations to be assumed by the Company under the Government proposal with those yet remaining to be completed under the existing arrangements between the Company and the Province.

The works to be executed after the completion of the line from Brockville to Stratford are:

The road from Stratford to Sarnia which will cost the

Company say.....	£ 400,000
The Victoria Bridge do do....	1,150,000
And the St. Thomas and Rivière-du-Loup Line.....	560,000

Making a total outlay on Works of.....£2,110,000

Which with an allowance for Interest (accruing on the preferential Bonds which it will be necessary to issue during the completion of the works) and for contingencies in winding up the contracts, involves the necessity of raising the total amount of say....£2,590,000

The works to be executed under the Government proposal are:

The Road from St. Mary's to London which would cost the Company say.....

cost the Company say.....	176,000
The Road from Stratford to Sarnia do	400,000
The Victoria Bridge do	1,150,000
The Three Rivers Branch do	240,000
The St. Thomas and Rivière-du-Loup do	560,000
Subvention to the Port Hope, Cobourg and Prescott Railways.....	100,000
and adding as before for Interest and Expences in	

winding up the contract.....	420,000
Making a total of.....	<u>£3,046,000</u>

As therefore the Government proposal is only to allow the Company to raise the sum of.....£2,000,000 already shewn to be insufficient by..... 500,000 under the existing arrangements, there would remain a deficiency of..... 1,046,000

Assuming then that the Company assent as no doubt they would under proper facilities, to the desire of the Government to make the additional arrangements contemplated in their Memorandum as an aid to the tributaries or feeders of the Grand Trunk Railway, and which I have reason to believe, although forming no part of the existing contracts, would nevertheless in a general point of view, be beneficial to the Company, there would yet be a deficiency of £1,046,000.

It will be acknowledged therefore that the new Capital of two million which it is proposed should be raised by the Company by preferential Bonds, is under the most favorable circumstances inadequate to the requirements of the Government proposal, by the large amount of a million sterling, unless indeed a portion of this amount could be raised by Municipal Bonds.

Permit me Sir, now to recall your attention to the two requirements under the existing circumstances which it will be unanimously agreed are necessary to be attained by any scheme now to be adopted viz:

First,—Funds for the completion of the enterprize, the deficiency being principally due to the unlooked for depreciation of the stock during the last twelve months.

Second,—The resuscitation of the undertaking itself.

It has already been shewn that the Government proposal does not attain the first object;

Let the capacity of the scheme as to the second, and equally, if not more important requirement be carefully tested?

This will best be done by shortly stating, that the new Capital to be raised by the Company by preferential Bonds, would, by the Government proposal, increase the first charge above the Company's Bondholders from £3,111,500 to £5,111,500, and the total debt above the Shareholders from £5,266,000 to £7,266,000.

Now, it will not be controverted that the second requirement above alluded to can only be attained, more or less, by some direct

demonstration by the Government and Legislature of confidence by the people of Canada in the ultimate prosperity of their national Railway enterprise.

How, then, does the Government proposal meet this greatly-to-be-desired and, indeed, imperative object?

Simply by asking those Shareholders, more than two-thirds of whom must, by the provisions of 18 Victoria, chap. 33, clause 7, give their consent, and who alone could be expected to subscribe the £2,000,000 *pro rata* to their respective holdings, completely to forego for several years the small prospect of a Dividend of say 2 per cent. on their investment, which it has been shewn in Table No. 1 of the memorandum on the Guarantee Scheme, would probably accrue over the average of the first five years from the opening of the line, before Christmas next, in its whole length up to Stratford.

Remembering, Sir, that it is as much for the good of the Province as to the interest of the Shareholders, that this Railway should be brought to a rapid and successful completion, the proposal of the Government to raise the debt above the Shareholder from £5,266,000 to £7,266,000, is simply and in the plainest language to inform the Capitalists and Public of Great Britain, that the People of Canada have no confidence whatsoever in their greatest Railway undertaking.

Sir, it has been fully demonstrated that the proposal of the Government signally fails to accomplish either of the objects sought to be attained for the relief of the enterprize.

Were there, in my opinion, the slightest chance even of its acceptance by the Company, I should have deemed it incumbent to have advised with the Board of Directors here before forwarding my reply, but, under the actual circumstances, I feel it is my painful duty at once to communicate, for the information of His Excellency the Governor General and of the Government, that, even if asserted to, the money could not by any possibility whatever be raised by the Shareholders, and the Scheme would therefore be wholly inoperative.

Sir, while I feel strongly the many difficulties which, as stated by you, "beset this question, and the differences of opinion which exist as to the best mode of disposing of them," and while I acknowledge, on behalf of the Committee of Shareholders, with many thanks, the individual and collective kindness and courtesy of the Government in the facilities afforded me for explanation, I

regret extremely that the result should be a Scheme which is completely impracticable of execution.

To refer once more, Sir, to your courteous statement, that the further course of the Government may materially be influenced by my opinion, as the accredited Agent of the English proprietary, I willingly avail myself once more of the opportunity thus afforded, earnestly to point out, for the consideration and grave reflection of His Excellency the Governor General and the Government of these Provinces, that the decision now to be arrived at must and will prove a crisis in the Railway History of Canada and that the Government proposal, which if persisted in must prove a death blow to the credit of the National Railway undertaking, which was received in the British money market under the auspices of the then Government, is dealt at a moment when the Executive of the older and younger states of the world are attracting to their respective Countries the Capital necessary for their Railway development by giving a minimum guarantee on the investment of the Public, and thus pledging the Confidence of their Nations in their own prosperity; a pledge Sir, which, as has elsewhere been stated, has in no one known instance resulted in any loss, in respect of the guarantees, so given, amounting in France alone to the sum of Thirty millions sterling per annum.

I adhere Sir, to my conviction that the Guarantee scheme is the only remedy completely adequate to the existing emergency, and which offers the same advantages to all legitimate subsidiary Railway Enterprise; but I desire again to make the often repeated statement that the Shareholders will readily assent to any scheme which would afford material relief to the Company, if on consideration it should prove to be comprehensive and final, and not merely one administering to the actual necessities of the moment.

This I beg leave to remind you Sir, may be largely effected by the scheme proposed in the memorial presented to His Excellency the Governor General by the Board of Directors, viz: by the conversion of the Provincial mortgage into Stock of the Company, with additional Guarantee to the Western Section of the line and the Victoria Bridge, and with power to the Company to raise the funds necessary for the completion of the work by a first charge on the undertaking; and a most reasonable modification between which basis and the existing arrangements of the Company's Capital, I had the honor to submit to you on the 5th instant, and

which I need hardly repeat appears to be the last possible compromise capable of affording any relief to the Company.

I have the honor to submit that scheme once more, viz :

First, New Capital by preference Bonds of the Company of.....	} £2,500,000
Second, Existing Provincial Bonds to the amount of.....	} 611,500
(the Interest of which to be paid by the Government for 5 years.)	
Third, the existing Company's Bonds...	2,144,500
{ Fourth, remainder of existing Province Bonds to be converted into Stock.....	} 2,500,000
{ and Company's share Capital.....	} £3,006,500

The advantage of this modification is, that it in no way affects the position of the debt now existing above the Company's Bondholders and Shareholders, who will then readily raise the necessary Capital for the completion of the undertaking, while the Province, on the other hand, by engaging to pay the interest on their £3,111,500 for five years, would afford the Shareholders a reasonable prospect of a moderate and immediate return on their investment, and the confidence of the Country would be exhibited by their willingness to share to the extent of £2,500,000 of its existing first mortgage, in the risks or profits of the undertaking with the present Shareholders.

In extension of the plan so submitted, I am now prepared to consider how far it may be possible to meet the expressed desire of the Government to secure the lines to London and Three-Rivers, as well as to aid the Cobourg, Port Hope and Prescott Railways, by the following proposal :

The Government to convert their entire Mortgage into Share Capital ;

The Company to be authorized to issue £3,000,000 of preferential Bonds ;

And the fourth and fifth sections of your proposal to apply to this intended arrangement.

I feel, Sir, that I have discharged my duty as the representative of the Shareholders, in submitting, on their behalf, a proposal, the moderation of which will, I am sure, be recognized and appreciated.

In conclusion Sir, I respectfully appeal to the Governor General and the Government, in the definitive settlement of this most

important question, well to weigh the great responsibility attaching to their decision; for while the risk of any possible loss to the Province by the modification above set forth, are reduced to a minimum, the disappointment of the just expectations of the Shareholders would in the words of Mr. T. M. Weguelin, the Governor of the Bank of England and Chairman of the Committee of Shareholders, deal an incurable blow to the undertaking, and would undoubtedly re-act for years to come on the development of the Railway Enterprise of Canada.

I shall have the honor to lay your communication and this reply before the Board of Directors.

I have the honor to be

Sir

Your obedient servant,

WILLIAM NAPIER,

On behalf of the Committee of Shareholders
of the Grand Trunk Railway Company
of Canada.

To the Honorable

WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

No. 4.

Toronto, May 12th 1856.

Sir,

Having observed the publication in the *Daily Globe* of your Letter and Memorandum of the 6th instant, to myself, and having heard that an unauthorized and incorrect copy of my reply thereto is being circulated in some of the Provincial Journals—it is due to myself as to you Sir, to inform you that I have in no way been a party directly or indirectly, to the publication of a confidential and incomplete correspondence on such a grave subject, as the affairs of the Grand Trunk Company. It was my duty Sir, pursuant to my instructions to advise confidentially with certain gentlemen, the Authorities of the Grand Trunk Company, upon any correspondence with the Government on this subject, and it was my desire to place each Member of the Executive Government in possession of such correspondence in such a shape as to enable the better comprehension of the difficulties under consideration.

I consulted my advisers and made such arrangements under distinct assurances of that secrecy which is imperative in such matters, and it has given me the deepest pain to witness the result, which by any attempt to prejudge the intentions of the Government, outlined by a sketch inviting my remarks and counter suggestions, must necessarily be damaging to the interests of the Railway and of the Country which are inseparably connected.

I have the honor to be, Sir,

Your obedient, &c.

WILLIAM NAPIER,

On behalf of the Committee of Shareholders
of the Grand Trunk Ry. Co. of Canada.

The Honorable

WILLIAM CAYLEY,

Inspector General.

&c., &c., &c.

No. 5.

TORONTO, 14th May, 1856.

SIR,

Within the next few days a proposal for the relief of the Grand Trunk Railway Company will, I believe, be brought before the Legislature of this Province.

As I am daily informed that the public are desirous of obtaining information as to the views of the Shareholders of the Company, upon the various schemes which would seem more or less available for the relief of the enterprize, I desire your kind permission, Sir, to avail myself of the only means open to me of explaining my views on the part of the Shareholders, on the question about to be submitted to the consideration of the Legislature, by addressing you a public letter on this important subject, and which presents itself for solution under two heads :

First—The means of providing the funds adequate for the completion of the Railway ; the present deficiency being principally due to the unlooked for depreciation of the Stock during the last twelve months.

Second—The resuscitation of the credit of the undertaking.

Whatever may have been, Sir, the financial or other mistakes on the part of the Company, you will agree that the chief object now to be attained is the rapid completion of the Railway in its fullest development, and which it will be allowed is as much to the interest of the Province as of the Shareholders.

Any scheme therefore which is presented, should be adequate to this end, or it would necessarily, fail to secure the object in view, and would occasion a delay of a whole working season, at least, in the prosecution of the remaining engagements of the Company, after the completion of the line between St. Thomas and Stratford, (exclusive of the Victoria Bridge.)

Before proceeding, Sir, to consider what alteration of the existing Contract between the Company and the Province, would to a greater or lesser extent effect the object in view, it is desirable that I should give a clear statement of the existing financial arrangement for providing the necessary funds.

The Company's Capital is constituted as follows :

No. 1.

1st. By 6 per cent. Government Bonds.....	£3,111,500
2nd. " " Company's "	2,144,500
3rd. " Company's Shares.....	4,306,400

Total..... £9,562,400

On the completion in the approaching autumn of the line from St. Thomas to Stratford, exclusive of the Victoria Bridge, the expended Capital of the Company will stand thus :

1st. 6 per cent. Government Bond.....	£3,111,500
2nd. 6 per cent. Company's do	1,744,500
3rd. Share Capital.....	3,006,400

Total..... £7,862,400

The difference between..... £9,562,400 (No.1)
as above, and..... 7,862,400

Namely..... £1,700,000

is therefore the nominal amount of the Company's Capital yet available for the construction of the remainder of the Contract between the Company and the Province, and is composed of

Unissued B Shares (nominal value).....	£1,300,000
Unissued B Bonds "	400,000

Together (nominal value) £1,700,000

Had the Company in the first instance allotted to the public the B Shares and B Bonds, the sum would be available for, and would complete the remainder of the original engagements between the Company and the Province, less any amount of additional expenditure now seen to be necessary; but as these Shares were not so issued to the public, and as from circumstances which could scarcely have been anticipated, the value of this Stock, if forced upon the market, as it must be, could scarcely be named, it becomes necessary that in any scheme proposed for the relief of the enterprise, such an alteration of the existing arrangement of the Company's Capital should be made as would enable the realization of the necessary amount at par, instead of at 50 per cent. discount, as the case will stand, if no relief be now given.

I have said that the amount under the existing arrangements to be replaced at par, is £1,700,000, but I believe that in reality the sum is much larger, and may be stated as follows :

- | | |
|--|------------|
| 1. For the completion of the Victoria Bridge..... | £1,150,000 |
| 2. For the line to Sarnia..... | 400,000 |
| 3. Provision for additional Rolling Stock and sidings and accommodation required for the development of the traffic..... | 400,000 |
| 4. Interest on the new Capital to be created, for the time required for the completion of the whole line..... | 250,000 |

Making the sum of £2,200,000

As against the amount as above stated of..... £1,700,000

But assuming that the £400,000 of B Bonds be floated or taken in payment for works at par, the deficiency to be made good under any scheme now to be passed into law, would be £1,800,000

Let it be assumed that in round numbers, £2,000,000 is the sum necessary to be raised for the completion of the existing arrangements, between the Company and the Province, and for such additional Rolling Stock and accommodation as it appears will be required, and including other liabilities not named.

It is evident that in the present difficulty, a step must be taken by both parties towards its solution, or else nothing further could be completed by the Company, than the line between St. Thomas

and Stratford, exclusive of the Bridge, and the rest of the work must inevitably remain unexecuted, until the gradual development of the traffic shall have placed the Company in a position to raise the necessary funds.

Meanwhile the complete isolation of the line will protract for a long time, that development of the traffic which can only be more rapidly obtained by the immediate execution of the remainder of the works.

During this interval of time the Province would necessarily be called upon to pay the interest upon their Bonds, amounting on £3,111,500 to £186,690 per annum.

It is not for a moment assumed that if no relief be afforded to the Company, and that if after the completion of the line from St. Thomas to Stratford, the remainder of the works should be suspended for want of funds, that the Province would enforce their first claim, or would take any of the profits of the line, towards the interest on their Bonds, until the traffic should have developed so far as to give the Shareholders a reasonable return, say 5 per cent. upon their investment. At such time of course the Government would be fairly entitled to compel the Shareholders to raise the capital necessary for the completion of the works, which, however, they in their own interest would only be too glad to do, when enabled by their financial circumstances.

It is then evident, if matters come to a stand still, as they must, if no relief be afforded, that the Province would continue to pay the sum of £186,690 per annum, being the amount of interest on their Bonds, for some years to come.

If this position of affairs be assented to, it will not be difficult to devise a scheme more or less valuable for the relief of the Company, and which will effect all the objects in view, without entailing any additional sacrifice upon the Province.

But before so doing, permit me to shew that it is the existing Shareholders of this Company alone, who under any circumstances can be expected to raise the additional capital required; for which purpose the 7th Clause of 18 Victoria, Cap. 33, is quoted.

“ In case it should be deemed expedient by the said Grand
“ Trunk Railway Company at any time or times hereafter to
“ increase the Capital of the said Company, such increase may be
“ effected by Resolution of the Directors of the said Company,
“ sanctioned and approved by two-thirds at least of the Votes of
“ the Shareholders present in person or by proxy, at a General
“ Meeting convened with special notice of the intended object ;

“and the further Capital so authorized may be raised by mortgage or Bond, or by the issue of new Shares of such denominations, and with such terms and conditions, and at such times and to such persons and in such manner as the Shareholders so present in person or by proxy, shall by the like proportion of votes approve or direct; Provided that no mortgage bond or issue of new Shares, under this Act, shall affect or impair the priority of the Government's claim for any Government guarantee already given, or hereafter to be given to the Grand Trunk Railway Company of Canada, or affect or impair or postpone the security, by bond or mortgage of any individual upon the said road, without his consent in writing.”

It is thus seen that the consent of two-thirds of the Shareholders is necessary for the creation of any new capital at all, and that the consent of the Company's Bondholders must be given to the creation of any preferential shares affecting or postponing their existing security.

Is it not also quite clear that the Shareholders who alone can be expected to subscribe the necessary £2,000,000 will only do so upon good evidence that by the additional subscriptions, their prospects during the next five years will be improved? Now it has been shewn by Table No. 1, of the Memorandum on the guarantee Scheme, that even if the western extension of the line be at once completed, the Shareholders cannot expect to divide more than two per cent on the average of the next five years; consequently it is quite imperative that while calling upon them to improve the value of their depreciated property, by an additional outlay, the Scheme proposed should be calculated to improve their prospects, and thus to give confidence.

When I first had the honor of explaining in this Country the views of the Shareholders, I submitted their suggestions for complete relief viz: “The Guarantee Scheme,” a Memorandum of which has already been circulated for the information of the public:

While thus fulfilling the first duty assigned to me, I did not fail at the same time, to develop any adequate or material Scheme of Relief which might be proposed, and I have not failed to perform this duty to the utmost of my power.

The Scheme of Relief which, after much consideration during the last four weeks, with persons of all opinions and of various social positions, seems to me, to be the most prevalent, is the conversion of the first mortgage of the Province into Stock of the Company, with power to raise, by preferential Shares or Bonds, upon the

whole undertaking the sum necessary for the completion of the Works, as follows:

No. 2.

1st. Preference Bonds of the Company.....	£2,000,000
2nd. Company 6 per cent Bonds.....	2,144,500
3rd. { Government Stock.....£3,111,500 }	8,262,400
{ Company Stock..... 3,006,400 }	

Such an evidence of willingness, on the part of the people of Canada, to share with the Stockholders the risks or profits of the undertaking, would be accepted by the public in England, as such a mark of confidence as would certainly justify and enable the Shareholders and Bondholders in their own interest, to raise the necessary sum by a first charge on the undertaking.

This proposal is the most simple, and failing the Guarantee Scheme, would be the most effectual. Several propositions have however been submitted for consideration, principally modifications between the total conversion of the mortgage of the Province into Stock, and the existing arrangements of the Company's Capital, as already explained; (No. 1); one only, however, to avoid confusion, would seem to me to be the most suitable for present consideration, and which would be adequate to enable the raising of the required funds, viz :

No. 3.

1st. Preferential Bonds of the Company.....	£2,000,000
2d. { Company's 6 per cent Bonds..... }	2,144,500
{ Provincial Bonds..... }	3,111,000
{ The interest of the latter to be paid by }	
the Province for five years. }	
3rd. Share Capital.....	£3,006,400

It is clear that, if the Provincial Mortgage be not converted into Stock of the Company, as by No. 2, the next thing is to place it on a level with the Company's Bonds, (No. 3) and to apportion the profits of the Line to the relative claims, but to make this scheme of any commercial value whatever, it is absolutely necessary that the interest upon the Province Bonds should be paid for the first five years, being the time remaining for the completion of the Line in all its intended development; thus allowing the Shareholders, during that time, a maximum, possible profit, of say 5 per cent on their investment, for if the profits are at once to be apportioned to the Province in respect of their claim, the manifest result is that nothing or at any rate not one per cent would be available for Dividend on the Stock.

At the end of five years, there can be no moral doubt that the development of traffic on the completion of the whole undertaking will be such as to afford 5 per cent to the Shareholders, in addition to all the first charges on the undertaking, when of course the apportionment of profits as above mentioned to the Province would commence.

It is then upon the condition of the payment of the interest upon the Government Bonds for the first five years that the success of the scheme No. 3 depends, and as it has already been assumed that if no relief be afforded and the remainder of the works after the completion of the line to Stratford be suspended, that the Province would not foreclose their first Mortgage and would not take any of the earnings of the line until the Shareholders had attained a reasonable return on their investment, and that therefore the Province would for several years be necessitated to pay the interest on their Bonds, is it not to the advantage of the Province at once to engage to pay that interest for five years and thus to enable the Shareholders to raise the necessary funds and rapidly to execute those works, the completion of which alone can possibly develop the traffic and ensure the continuance of that large increase in the value of all property in Canada which has already resulted since the commencement of the Railway system.

Believing therefore that the Public and the Legislature desire to pass such a measure into law as shall be adequate to raise the necessary sum of £2,000,000, the choice of measures is principally limited, (failing the Guarantee scheme),

First, To a conversion of the Province Bonds into Stock of the Company, being the most effectual measure.

Secondly, To the alternative of placing the Province Bonds upon the same footing as the Company's Bonds, and agreeing to pay the Interest for five years.

In each case permitting the Company to raise the £2,000,000 by preference Bonds.

Thus a very simple alternative is submitted and one which will readily be understood and decided upon, and I earnestly invite the Public and the commercial men of this Country to examine these statements and to declare how it would be possible for the Company to raise the necessary £2,000,000, if placed in any worse position than the second alternative above submitted.

It should be distinctly understood that the Shareholders are quite willing to have any alteration of the existing engagements between the Company and the Province, based upon a condition

that the line from St. Thomas to Stratford, exclusive of the Victoria Bridge, shall be completed in the current year, and on any other proper stipulations.

The adoption of the first or even of the second alternative above described, by affording the Company the means of extrication from their present embarrassments would avert the disastrous depreciation of the Company's Stock, which will necessarily result from a failure to obtain during the present session of the Canadian Parliament adequate or material relief, and would enable the rapid prosecution of all the works remaining to be completed after the opening of the Line from St. Thomas' to Stratford (exclusive of the Victoria Bridge), any delay in which would be most prejudicial to the development of the resources of the Country.

Apologizing for the hasty and imperfect manner in which these explanations and suggestions are necessarily submitted,

I have the honor to be, Sir,

Your very obedient &c.,

WILLIAM NAPIER,

On behalf of the Committee of
Shareholders of the G. T. R. C. of C.

To the Honorable

WILLIAM CAYLEY,

Inspector General,

&c., &c., &c.

No. 6.

INSPECTOR GENERAL'S OFFICE,

TORONTO, May 26, 1856.

SIR,

I have now the honor to acknowledge the receipt of your communications of the 7th, 12th and 14th instant, together with statistical tables and calculations.

These communications would have been acknowledged at an earlier period but for recent events and changes in the Government, which have rendered delay unavoidable.

I am also in receipt of your note of the 12th, in which you state, that it is due to me as well as to yourself, to inform me that you have in no way been a party, directly or indirectly, to the publication of a confidential and incomplete correspondence, and that mutual assurances of that secrecy which is imperative in such matters, had been given by yourself and the authorities of the

Grand Trunk Company, with whom it was your duty, pursuant to your instructions, to advise confidentially.

On this point, I beg to assure you, that no declaration on your part was necessary to satisfy the Government that the proceeding to which you refer, was had without your knowledge, and that you did not fail to impress upon the gentlemen you consulted, the irregularity of anticipating the close of your negotiations as the more convenient and usual period for giving publicity in matters of such importance.

Referring now to your communication of the 7th May, I observe in your prefatory remarks, an expressing of satisfaction that the Government acknowledge the principle that aid should be granted to the Grand Trunk enterprise in its depreciated financial condition: this observation seems to call for some notice to guard against misconception.

The Grand Trunk Railroad is justly regarded as an enterprise of primary interest to Canada, and promising materially to develop her resources when carried to completion. That the Government and Legislature have entertained this feeling, is abundantly shown by the provisions of the original Charter of incorporation granting Provincial aid, by the modifications introduced into the Railway Act in the autumn of 1854, at the desire of the Company, and again in the spring of 1855, by the addition of £900,000 to the Provincial guarantee.

The application now made by the Company for further aid arises, as I am informed by you, from the necessity to make other provision for funds adequate for the completion of the Railway, the present deficiency being principally due to the unlooked for depreciation of the Stock during the last twelve months.

This depreciation altho' deeply to be regretted, and productive of financial embarrassment to the Company, of no ordinary magnitude, arising out of the extent of the works in progress, does not in the opinion of the Government, constitute a claim as a matter of right to further Provincial aid; and while they appreciate the efforts made by the Company to carry on their engagements during a lengthened period of financial depression, and are prepared to consider any suggestions made for their relief, and to render every assistance which can be legitimately afforded, they desire that this point should be kept in view in the consideration of the important subject under discussion.

I have, now Sir, to make you acquainted with the views of the Government upon the further details, which tho' discussed in

conversation, have not been formally placed before you in writing ; these details (founded on the assumption that the memorandum which I had the honor to communicate to you on the 6th, and to which the Government adhere, is acceptable to the Company as the basis of the present negotiations,) define the position in which, in the opinion of the Executive, the Provincial guarantee, should stand, and the mode in which provision might be made for the accruing interest while the works are in progress.

The Provincial guarantee at present stands as a first charge on the road, and consequently would stand second in the event of the authorized issue of preferential bonds, and would thus have a prior claim to all profits arising from the road after the Preference Bonds had been provided for until the interest was covered. This position if insisted on, might lead to some misgivings in the minds of the bondholders, that their interests would be prejudiced in standing behind five millions of prior claims.

With the view to meet any difficulty of this nature, and as an evidence of the conviction which the Government entertain that the road when completed will be remunerative, they will be prepared to recommend to the Legislature to place the Province claim, to dividend on the same footing with the Company's bondholders.

The second point, the payment of accruing interest, on the Province Bonds, while the works are in progress, may be provided for in one of two ways, either by adding it to the original guarantee, and thereby increasing the Provincial lien on the road, or by the Province receiving an equivalent in share capital until the works are completed, and the road in full working, and it is confidently expected in paying condition—this period as it is necessary to fix a limit may be taken at five years.

In adopting one or other of these two alternatives, the Government would be prepared to receive your suggestions on behalf of the Company.

I have now stated in substance the extent of aid which the Government would feel themselves justified in recommending to Parliament, and I will close this letter with a short explanation with reference to the auxiliary lines referred to in my memorandum of the 6th, viz : the two projected lines, to London in the West and Three-Rivers on the St. Lawrence, and those of Port Hope, Cobourg and Prescott. The following extract from your letter bears on this subject :

"Assuming then that the Company assent, as no doubt they would under proper facilities, to the desire of the Government to make the additional arrangements contemplated in this memorandum, as an aid to the tributaries or feeders of the Grand Trunk, and which I have reason to believe, although forming no part of the existing contract, would nevertheless, in a general point of view, be beneficial to the Company."

Upon this I have only to repeat my remark that it is in this point of view alone that these lines would prove beneficial to the Company, that the Government have made the suggestions contained in my first memorandum, it is by no means their desire to impose fresh obligations involving the construction of new lines on the Company, but it is at the same time my duty to state that it is not in contemplation to abandon any sections of the line forming part of the undertaking, as defined by existing engagements.

The facilities to which you refer would have to be arranged with third parties, the Shareholders in these several roads, the action of the Government in this respect, being confined to the deferring the prior claim of the Province, so as to enable the Company to raise the necessary capital.

The Three-Rivers branch was first brought under my notice, if I am not mistaken, by the Engineer of the Grand Trunk, as calculated to form a valuable aid, and towards which the neighbouring townships were prepared to contribute £75,000.

The London branch has always been favourably received by the Grand Trunk authorities, and a deputation from London waited on the Directors of the Company last autumn, offering every assistance in their power towards the undertaking.

The Prescott line is at this moment admitted to be of very material assistance to the Grand Trunk, in sustaining the traffic returns of the road between Brockville and Montreal; but I believe I have said enough to remove every misconception of the views of the Government on this head, in proposing to authorize the raising of means for all or any of these several objects.

It may be that one and all would prefer working independently of each other. The stake that the Province has in the Grand Trunk is, in the opinion of the Government, a sufficient ground to warrant the offer to promote such arrangements, mutually beneficial to the parties concerned, as promise to bring material aid to your enterprise, developing its traffic and opening up the country.

In conclusion, I beg you to believe that the Government, and not the Government only but the Province, appreciate the struggles made by the Company to bring this undertaking to a successful issue, and that the assistance offered, though falling short, it may be, of the expectation of the Company, is tendered in the earnest hope that it may prove effectual.

Thanking, you Sir, for the courteous tone of your communications,

I have the honor to be,

Your most obedient servant,

(Signed,) WM. CAYLEY,
Inspector General.

To the Honorable WM. NAPIER.

R E P L Y

To the Letter of the 26th May, of the Honorable WILLIAM CAYLEY, Inspector General, by The Honorable WILLIAM NAPIER, on behalf of The Committee of Shareholders of the Grand Trunk Railway Company of Canada.

TORONTO, May 30th, 1856.

No. 7.

SIR,

I have the honour to reply to your favour of the 26th instant, received yesterday, acknowledging my communications of the 7th and 12th and 14th instant, and also my note of the 12th instant, and acquainting me "with the views of the Government upon the further details" (in respect to the proposed relief to the Grand Trunk Company) "which though discussed in conversation" have not been formally placed before me in writing, and "stating in substance the extent of aid" (to the Company) "which the Government would feel themselves justified in recommending to Parliament."

Before proceeding, Sir, to state, on behalf of the Shareholders, my adherence to the substance of the measure of relief thus proposed on the part of the Government, permit me to express my best thanks for the obliging terms in which you have acknowledged my note of the 12th instant, in reference to the unwarrantable publication in one of the Daily Journals of your letter to me and memorandum of the 6th instant.

It is necessary likewise that I should notice a misconception which has arisen from an observation in my letter of the 7th instant. It was never intended to convey an expression of opinion on be-

half of the Shareholders, that they seek for relief in their present embarrassments, as a matter of right ; I desired only to state my satisfaction that the Government, by their proposal, acknowledged the principle that, in the unfortunate juncture of affairs, arising from causes, many of which could never have been foreseen, it is as much in the interest of the Province as of the Company, to assist in the development of a scheme of relief, which, by mutual concessions and exertions, would furnish the Company with means successfully to carry out an enterprise which has already, in anticipation of its completion, contributed to an extraordinary advance in the assessed value for taxation of the real and personal property of the Province, as evinced by the increase in Upper Canada alone from—

£36,678,890 in 1852,

to

£57,142,108 in 1855,

and this at a time of War, when neighbouring States have suffered a considerable depreciation.

I have now the honor, Sir, to express my great satisfaction, under existing circumstances (and assuming the consent of the Government to my choice of the alternatives offered respecting the consideration to be received by the Province for the Interest to be paid on their Bonds during five years), with the measure of financial aid to the Company, which the Government are prepared to recommend to Parliament during the present Session.

Assuredly, Sir, it cannot afford that complete relief which the Shareholders so confidently hoped for, when they respectfully submitted the Guarantee scheme to the consideration of the Province,—nor will it give as much confidence to the English public as would have resulted from the conversion of the Provincial mortgage into Company's Stock, as suggested in the Memorial of the Directors to His Excellency the Governor General ; but it will, in my opinion, afford very material relief, and justify and enable the subscription by the Shareholders of the funds necessary for the completion of the existing engagements between the Company and the Province. And remembering, Sir, as I do, the anxious negotiations on this subject in the past six weeks,—the extraordinary facilities which the Government have afforded me for official and private explanations and suggestions, and the various grave difficulties which have appeared to render any solution in the present Session, of the embarrassments of the Company, almost impracticable, I

desire frankly to acknowledge that, in my opinion, with the explanations which it will be my duty to give, the proposed measure will be accepted with gratitude by the Shareholders.

I now proceed to state, in figures—

First,—The order of apportionment of net profits under the existing constitution of the Company's Capital; and

Second,—The new position which would be assumed under the proposed Government measure.

First,—

Apportionment of net profits under existing arrangements:

1. By 6 per cent. on Provincial Bonds, to the amount of £3,111,500
2. By Atlantic and St. Lawrence Lease or £73,500
per annum.....
3. By 6 per cent. on Company's Bonds, to the amount of 2,144,500
4. By Company's Share Capital, to the amount of 4,306,400

Total Capital.....£ 9,562,400

Second,—

Order of apportionment of net profits under the proposed measure:

1. By 6 per cent. on Company's preferential Bonds, to raise (for the completion of the Company's engagements and including certain other permissive arrangements, and also further expenditure not originally anticipated,) the sum of..... £2,000,000
2. Atlantic and St. Lawrence Lease, as above
3. Apportionment of remaining profits:
To 6 per cent. on Company's Bonds....£2,144,500
And to 6 per cent. on Provincial Bonds. 3,111,500

5,256,000

. Company's Share Capital 3,006,400

Total Capital.....£10,262,400

With an undertaking by the Province to pay the interest on their Bonds for five years, being the time necessary to enable the completion of the Railway and the development of the through traffic.

You, Sir, have pointed out two alternatives in respect of the nature of the consideration to be received by the Province for such payment of the interest on their Bonds, and have stated that

the Government are prepared to consider my suggestions thereon on behalf of the Company.

It is my duty, Sir, respectfully to state that if any equivalent be considered absolutely necessary in the case of the Railroad, and which has not been exacted by the Province under circumstances exactly similar, viz, the large outlay (in proportion to the then development of the country), made on roads, bridges, and other works which have been given up to the Public without any consideration, then, the conversion of such interest into share capital is the only course which could command confidence and which in my opinion would be assented to by the Shareholders.

By the conversion of such five years interest into Company Stock, the total Capital would be £11,189,800.

The only point, Sir, now remaining to be considered is the proposition that a portion of the £2,000,000, permitted to be raised by the Company on preferential Bonds, should, at their discretion, be applied to the execution and assistance of railway works other than those included in the existing engagements between the Company and the Province, and while I acknowledge that some of the projects, such as the aid proposed to the Port Hope, Cobourg, and Prescott Railway, would, from my own enquiries, prove remunerative to the Grand Trunk Company, if proper security should be given for the respective loans, yet, I desire Sir, to recall your attention to the statement in my letter of the 14th instant, shewing that the sum of £2,000,000, (embracing certain allowances for additional rolling stock and other accommodation for traffic and for interest on the preferential Bonds, which were not included in the calculations attached to the memorandum on the guarantee scheme, these having, for convenience at the time, been made on the basis of the original Capital of the Company), will, in round numbers be required for the satisfactory fulfilment of the engagements of the Company remaining to be completed after the opening of the Line from St. Thomas to Stratford.

Looking forward however, with confidence to brighter prospects within the next two years, I venture to express an opinion that the sum of £2,000,000, should be the maximum amount permitted to be raised by the Company by preferential Bonds, for all the purposes of present engagements (by arrangements with and under the control of the Government) and including the extra expenses, and the works and assistance additionally suggested by the Government, provided that the Government shall, in



the case of the additional lines of Railway, detailed in your Memorandum of the 6th instant, give to the Company, every assistance in their power, with the various Municipalities interested, and who shall be ready to afford their aid.

In conclusion, Sir, it will be gratifying indeed, to the Shareholders, after two years of doubts and of gloom, to receive the welcome assurance conveyed in your letter of "The conviction entertained by the Government that the Road when completed will be remunerative," and also of the due appreciation by the Government and by the Province of the struggles made by the Company during the protracted financial crisis which it is hoped will be terminated by the measure of relief now to be submitted to Parliament by the Government.

I have the honor, Sir, to thank you for the continued courtesy and obliging facilities I have received at your hands from the commencement of these negotiations, now, I hope to be as successfully concluded, as permitted by inherent difficulties and existing circumstances, and I beg leave, Sir, to remain.

Your very obediently
and respectfully,

WILLIAM NAPIER,

On behalf of the Committee of Shareholders
of the Grand Trunk Railway Company
of Canada.

To the Honorable
WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

NOTE.—All figures in this communication represent the amounts in *sterling*, unless currency is particularly stated.

No. 8.

(Copy.)

Sir,

I have the honor to enclose the copy of a letter I have received this afternoon from the Honorable John Ross, President of the Grand Trunk Railway Company, and also a copy of a Minute passed at a Board held this day for the purpose of receiving and



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considering your letter to me of the 26th instant, and my reply of the 30th instant and concurring in the views expressed therein.

I have the honor to be,

Sir,

Your obediently and respectfully,

WILLIAM NAPIER,

On behalf of the Shareholders of
the G. T. R. Company.

The Honorable
WILLIAM CATLEY,
Inspector General.

No. 9.

(Copy.)

TORONTO, 3RD JUNE, 1856.

MY DEAR SIR,

The Board Meeting summoned for this day in accordance with the request contained in your letter to me of yesterday's date was held this morning, and I have much pleasure in sending you a copy of the Minutes.

The Government Members of the Board, did not of course, desire to attend the meeting to pronounce an opinion in favour of their own measure, but you will observe that the Directors who were present, unanimously concurred in the views accepting the Government proposition.

Believe me, my dear Sir,

Yours very truly,

(Signed) JOHN ROSS.

The Honorable
WILLIAM NAPIER.

No. 10.

(Copy.)

A meeting of the Directors of the Grand Trunk Railway Company summoned by the President at the request of the Honorable William Napier, representative of the Committee of English

Shareholders, was held at the Speaker's Room of the Legislative Council on Tuesday, the 3rd June, 1856.

PRESENT :

E. P. TACHE,
JOHN ROSS,
GEORGE CRAWFORD,
W. H. PANTON,
JAMES BEATY,
G. F. WHITEMORE.

Letter from the Honorable W. Napier, to the President bearing date, 2nd Instant, was read. Copy of letter of Honorable W. Cayley of 26th May, setting forth the details of the scheme which the Government propose to recommend to Parliament to aid the Grand Trunk Railway Company, and Mr. Napier's reply bearing date the 30th instant, was also read, when it was unanimously resolved, by the Directors present representing the Shareholders, to concur in the views conveyed to Mr. Cayley by Mr. Napier in his letter of the 28th instant.

(Signed,) JOHN ROSS, President.

And the Board adjourned.

No. 11.

Toronto, June 6th 1856.

SIR,

It is, Sir, perhaps better that I should forward for your information the answer which I should otherwise have had the honour to address to the Honorable Col. Taché, in reply to his communication of this day's date, enclosing me the draft of an additional clause which it is proposed to add to the Resolutions in respect of the Grand Trunk Company, now to be moved by the Government in the House of Assembly, and also a copy of a joint letter of the 22nd November, 1854, by the Honorable John Ross and Sir Cusack Roney, President and Managing Director of the Company, addressed to J. C. Chapais, Esquire, M. P. P., and Joseph Cauchon, Esquire, M. P. P.

Taking Sir, into consideration and in connection with one another, the pledge and undertaking given in the above mentioned letter of the President and Managing Director of the Company, the observation in his communication of the Honorable the Premier of the Government, viz: "that the insertion of the proposed clause," will obviate some of the objections which have been raised against the proposed extension of relief, and being

personally able to confirm the latter representations, I feel justified in giving my adherence on the part of the Committee of Shareholders to the additional clause in question.

It is satisfactory also to be in possession of evidence by which I believe the proposed Line, would by good management, in a very short time, pay its own working expenses, and I cannot but look forward without apprehension to a more prosperous result than has hitherto been contemplated when the effect on the traffic of this Section, of the Resources to be anticipated and made available, by the completion of the Turnpike road from Rivière-du-Loup to the Frontiers of the Province of New Brunswick, is remembered—and keeping in view the ultimate extension of the Line to the Junction with the railways of New Brunswick and Halifax.

I have the honour to be

Sir

Your very obediently and respectfully,

WILLIAM NAPIER,

On behalf of the Committee of
Shareholders of the Gd. Tk. Ry. Co.
of Canada.

To the Honorable

WILLIAM CAYLEY,
Inspector General,
&c., &c., &c.

No. 12.

(Copy.)

QUEBEC, November 22d, 1854.

DEAR SIRS,

We beg on behalf of the Board of the Grand Trunk Railway Company of Canada, to give you this Pledge and Undertaking that the line from St. Thomas to L'Islet will be completed and opened for traffic on or before the 1st January 1857, and that the line from L'Islet to Rivière Ouelle will be completed and opened for traffic on or before the 1st January, 1859.

You are aware that under the powers of our present Bill, we can only get an extension of time for the construction of any portion of the Railway by authority of the Governor in Council, and we hereby authorize you to lodge this letter with the Provincial Secretary, in order that it may be a bar to the Company obtaining



any extension of time for the portion of the Railway above mentioned beyond the times we have above indicated.

We are, Dear Sirs,
Yours faithfully,
(Signed), JOHN ROSS, President.
C. P. RONEY, Managing Director.

J. C. Chapais, Esq. M. P. P.
Jos. Cauchon, Esq. M. P. P.

No. 13.

Toronto, 12th June, 1856.

SIR,

I beg leave to communicate the following extract from the minutes of the Board of the Grand Trunk Railway Company, and the Resolutions passed this day.

The Board having had communication of the Resolutions introduced by the Government in the House of Assembly, founded on the correspondence between the Honorable the Inspector General, and the Honorable William Napier acting as the Agent of a Committee of the English Shareholders—it was

Resolved to concur with Mr. Napier in approving and accepting the aid thus offered.

I have the honor to be,

Sir,

Your very obedient servant,

BENJ. HOLMES,
Vice President.

Honorable WILLIAM CAYLEY,
Inspector General,
&c. &c. &c.

THE FOLLOWING REMARKS

Made by the INSPECTOR GENERAL in debate, on the Resources of the Province, and the condition of the Grand Trunk Company, are added in the hope that they will assist to elucidate the facts essential to a full understanding of the position of the one, in claiming, and the means of the other to afford the aid solicited.

DEBATE ON THE FINANCES OF THE PROVINCE.

Hon. Mr. CAYLEY moved the House into Committee to consider of a motion "That a Supply be granted to Her Majesty." He said—In making this motion, I wish to avail myself of the opportunity, and I believe it is also in accordance with the wish of hon. members on the other side, to enter at some length into the nature and purport of the resolutions that I will have to bring down at an early period in committee of Ways and Means. Before doing so, however, I desire to call the attention of the House to the expenditure of last year, and to compare the estimates which I had the honour of laying before the house, last spring, with the actual returns of our revenues. The first item to which I shall refer as being the most prominent, both in amount, and as a gauge of the import trade of the country, is the return of our Customs Revenue. Hon. gentlemen may probably remember that I estimated the Customs Revenue for the year 1855 at £900,000. The actual revenue has been £881,774. It will thus be perceived that the actual revenue for 1855 has fallen short of the estimate by upwards of £18,000. And this revenue falls short by nearly 30 per cent. of the revenue of the previous year 1854. In bringing this fact under the notice of the House, I also wish to call the attention of the house to the views expressed on both sides, and more particularly by hon. gentlemen opposite, when the Reciprocity Treaty was under consideration, and the modification of our tariff. On that occasion we were strongly pressed to increase the proposed reduction of our duties,

and hon. gentlemen opposite complained of our want of nerve, and our inattention to the general demands of the country, in not coming down with a larger measure of reduction. One prominent member, the hon. gentleman who not more than two or three nights ago told us we ought now to come down with firmness and nerve and meet the present exigencies of the country by heavy imposts—that very gentleman on the occasion to which I refer, not twelve months ago was one of the parties who moved an amendment to reduce our revenue from 30 per cent. on sugar, and molasses, to 10 per cent. And he was followed by the hon. member for Montreal, who proposed to reduce the *ad valorem* duties from 12½ to 10 per cent. I wish to contrast the view taken by those gentlemen of our position on that occasion with the views expressed two nights ago, when we were urged to come down with a bold measure of taxation on the country.

Mr. GALT.—I never said that.

Hon. Mr. CAYLEY.—Well, it was to be a bold measure for furnishing the means of going on with Railways and Canals. I should be glad to know how the House can reconcile the proposition, made within these few months back, at the very time, too, that we had to extend an additional aid of £900,000 to the Grand Trunk, that we should still further reduce our Ways and Means by reducing our revenue—how they can reconcile that with the suggestion lately made to increase our burdens, for the purpose of meeting these grand schemes of railways and canals. I think that either they must give up their pretentious claims to foresight and prudence, or that we must find the solution in the fact, that with their eyes open they were following up the game of opposition, and were willing to risk the best interests of the country to secure a party triumph. I am happy to know that the House had the firmness to resist what is always a very attractive proceeding, the reduction of duties, because, from the statement I am now about to make, it will be evident that our ways and means have been reduced by the result of last year's financial changes, while I must at the same time state that the expenditure of the year, for many reasons into which I shall enter more at length on some future occasion, has been largely increased. Adverting then more in detail to the estimates, and comparing it with the actual revenue, I will state that the Customs' and the Excise duties, estimated at £908,000 have yielded £901,000. The Territorial Revenue estimated at £100,000, has yielded £125,000.—Bank impost estimated

at £24,000, has yielded £22,400 Public Works estimated at £100,000, has yielded £100,200. Fines and forfeitures estimated at £5,000, have yielded £5,800. Casual Revenue estimated at £25,000 has been £55,980. But of this amount £43,000 is the result of premiums on the sale of debentures in the English Market during the last year, to the amount of £351,400 sterling. The Law Fee Fund estimated at £4,500, yielded £6,717. Thus I find that our total revenue for the year amounts to £1,217,534, instead of £1,166,500. I come now to the expenditure. The interest on the public debt, estimated at £210,000, has amounted to £219,570. The civil list was estimated at £73,884; actual expenditure £63,157. Acts of Lower Canada estimated at £5,996; actual expenditure, £5,021. Acts of Upper Canada estimated at £5,000; actual expenditure £3,688. Acts of the Province estimated at £174,000; actual expenditure £221,145. In this, however, there was included £21,000, which formed part of the estimates of 1855. The annual estimates of 1855, were £349,261; the actual expenditure under that head £308,966. The Sinking Fund was estimated at £75,000, but we have paid £85,151 under that head. The deductions from revenue, for expenses of management of Public Works, &c., estimated at £170,000, turned out to be £198,474. There were also in the estimates of the previous years, but paid this year, sums amounting to £89,799. The total expenditure, therefore, has been £1,194,873 13s. 9d. The total revenue, as I stated, has been £1,217,534 14s. 11d. Thus it will be perceived that we have a balance of somewhere about £22,000 over and above the actual expenditure of last year. I by no means desire in making this statement, to convey the idea to the House that I take a desponding view of the state of our finances because the revenue of the last year has fallen so far short of the revenue of the previous year. In point of fact, the revenue of last year has in the aggregate overrun to a trifling extent the estimate; so that we may say that we had anticipated the result of the year's transactions. Again, though our revenue has fallen off apparently some 30 per cent. from the previous year, our importations have not fallen off to that extent. To show this I will read a table of the importations for the last five years:

In 1851.....	£5,315,697
1852.....	5,071,623
1853.....	7,995,359
1854.....	10,132,331
1855.....	8,973,048

It thus appears that in round figures we have lost little more than the tenth of the importations for the previous year, while in revenue we have suffered a diminution of upwards of 30 per cent. The difference is partly due to the large addition made to the free list, the effect of the Reciprocity Treaty, and the addition made to the 24 per cents on a number of raw materials.

With reference to the addition made to the free list, I will show the value of free goods imported into Canada during the last three years.

In 1853.....	£443,997
1854.....	703,435
1855.....	3,584,618

We here see the effect of our Reciprocity arrangements with the United States, that while our revenues from customs have very materially diminished, our importations under the head of free goods, have been most enormously increased. And in referring to this circumstance I may congratulate the house and the country on an arrangement, which at a period otherwise of general depression, gave great impetus to certain branches of business, connected with our staple products, which proved of incalculable value last year.—Of this item of free goods, Montreal has had a large share. There were imported of free goods into Montreal :

In 1853.....	£125,790
1854.....	321,347
1855.....	950,462

I have more particularly adverted to the trade of Montreal, because several memorials have been addressed from that quarter of Canada upon the subject of trade, the memorialists dwelling strongly upon the discontinuance of the use of that channel for the purposes of trade, and urging that by some legislative action we should endeavour to restore activity and business to the port of Montreal, and one mode by which this was to be effected was, that we should change the system by which we levy a portion of our duties, from the specific to the *ad valorem*. I am prepared to discuss this question at some length with Hon. Gentlemen opposite, as I look upon it as one of very considerable importance. I am desirous indeed of inviting discussion upon it. But I have not that confidence in the result of a return to the former system which some Honorable Gentlemen profess. On the contrary I believe that you cannot, by any restrictions or by any coercive legislation, be successful in driving trade out of its natural channels. I feel, however, assured that

Montreal does not seek to aggrandize herself at the expense of other parts of the community, and I am satisfied the memorialists are mistaken in believing that the object they are pursuing will not injuriously affect other parts of the country. I am not disposed to overlook the interests of Lower Canada, and of Montreal, but I seek to deal equal justice to both sections of the Province. I therefore propose to consider first of all what are the general interests of the Province, and how they are best to be maintained. I take it to be our general interest to maintain the credit of the Province, and to afford every facility for the development of the resources of the country, its natural productions and manufactures, and not to endeavour to coerce trade into certain channels by special legislation, to keep duties as light as is consistent with the requirements of the public service, and leave the merchant and the consumer free to choose their own markets. In order to effect this, we should above all maintain the credit of the country—we should have a safe and sound and good banking system—we should offer every facility for keeping up the intercourse between the several sections of the Province by our water communications, our canals, rivers, &c.,—not that every harbour, every canal, every railroad should be constructed with public money, but that we should lend our aid to those enterprises which in extent and amount of cost are beyond the reach of private means, and ceasing to be of local value only are of general importance. On the last occasion when I had the honor of addressing the House on the subject of specific and *ad valorem* duties, I quoted the opinions of several members of the Imperial Parliament, of Mr. Gladstone, and other Gentlemen regarded as high authorities, showing their preference for the adoption of the principle of levying specific rather than *ad valorem* duties. On that occasion, I had not the opportunity of referring to the report of the Committee of the House of Commons, but I have since obtained the papers, and find that the substance of what is reported by the Committee describes the principle of *ad valorem* duties as one which works badly in practice, however, commendable it may appear in theory. The objections to it are the impracticability of working it out correctly, that it is always a subject of uneasiness, vexation, favouritism, and bribery, and also its materially affecting the value of the article imported. Great difficulties in the mode of working the *ad valorem* system arise from the seizure of goods by customs officers on speculation. Mr. Traverse, in his evidence, stated that, during the time *ad valorem* duties were in existence,

open and rank bribery existed. It was one of the most forcible arguments used to show that the system ought to be changed. The difficulty of arriving at the precise value of sugar for the purpose of fixing the rate of duty applies to all classes of *ad valorem* duties—the return to which formed the principal topic of discussion.

Mr. GALT.—When did that Committee report?

Hon. Mr. CAYLEY.—In 1852. The evidence of Mr. Brown before the Committee of the House showed that it was perfectly impossible to fix the exact amount of duty to be charged on tea *ad valorem*; he said: “we had 20 pots of tea in the room with hot water in them, smelling them and tasting them, and saying this is one kind of tea, and that is another kind; and at last we found that we could not continue that course, and had to put on a specific duty instead.” Mr. Hastings went on to give evidence precisely to the same purport on the subject of sugars.

Mr. HOLTON.—Is the evidence all on one side?

Hon. Mr. CAYLEY.—In this report it is. It all tends to show the impracticability of working out the *ad valorem* system. But we have some experience on the subject ourselves, and I will state a case which is probably in the knowledge of the member from Montreal—a case which was called the McFarlane case. The McFarlane case was this: A quantity of brandy was imported into Montreal in October in 1854, on which the importer proposed to pay the duty as coming from Charente. The customs officers contended that it was from Glasgow. It was French brandy, and the only question raised was whether it came from Charente direct, or *via* Glasgow. The importer contended that it came from Charente, but that his agent at Glasgow having a quantity of Charente brandy in his vaults might possibly have filled a portion of the order in that way. However, the brandy was seized, heavy bonds were given, and the case has only been closed within the last few weeks by the payment of a forfeiture. The question then turned solely on this point: was the brandy imported direct from Charente or from Glasgow? Should the duty be charged on the value at Charente or on the value in Britain. Now the actual value of the brandy was no higher coming by one way than by the other, and my opinion is that the duty should be the same; and that the importer was placed at a very great disadvantage through the principle that was acted on. The next case to which I will refer is connected with the gas works of this town. A number of castings were entered by Mr. Brick at a valuation of \$40,000; and they were seized

for a supposed undervaluation to the amount of £2,000. On a close examination, it was not only found that the valuation was equal to that placed on similar articles in the Cities of Quebec and Montreal, but was actually higher. The seizure had been based on a memorandum of three Gentlemen engaged in this city in the hardware trade, two of whom, on a more careful examination of the case, saw fit to modify their statement with regard to the value of the castings imported by Mr. Brick, and they were accordingly released. Now, here is a case of hardship under the *ad valorem* system. Mr. Brick actually entered these articles at a higher valuation than they bear in the Cities of Quebec, Hamilton and Toronto, and yet in consequence of the difficulty of determining the exact rate at which they should be entered, they were seized, the importer compelled to give heavy bonds, and subjected to much hardship and vexation. I took the trouble some time since to have a table prepared showing the value of importations of tea at all the ports in Upper and Lower Canada, and I desire to call the attention of Honorable Gentlemen opposite to some of the figures of this table. First of all, I find that the number of pounds of tea imported into Lower Canada for three-fourths of the year, was within a fraction of the amount imported into Upper Canada—the number of pounds imported into Lower Canada being 731,329 against 734,292 imported into Upper Canada, being barely a difference of 2000 pounds; but the value of the tea imported into Lower Canada was only £42,096, while the value imported into Upper Canada was £66,954, being a difference of nearly 50 per cent. I now direct attention to the entries of some cargoes of tea from the seaboard, and from China direct, and through the United States. A cargo of tea, imported direct from China in May 1855, was entered at 9 2-5d per lb., and another cargo imported from China direct was entered at 11½d per lb. I find that the average price of teas at Quebec and Montreal was 1s. 1½d. per lb., and that the average price of teas at Hamilton and Toronto was 1s. 10½d. per lb; the average duty paid on teas at Montreal and Quebec, entered under the late tariff, was 2½d; and the average rate of duty at Toronto and Hamilton was 3½d. This was the penalty paid by Upper Canada for importing by other channels than that which is favoured by the member for Montreal (Mr. Young.) Now, it will be perceived that by reducing the duty on tea to a fixed duty of 2d. per lb., that in no case has the duty in Lower Canada arrived at the duty it paid before this alteration was made. For instance, under the last entry of

tea the importation from China direct in 1855, 9 2-5d. per lb., the duty amounted to 2 1-5d. per lb., and the duty in 1853 on tea imported from China was 2½d., consequently the *ad valorem* duty under the old system was higher at Quebec and Montreal than it is under the fixed duty of 2d. par lb. The consumer, therefore, gets his tea at a reduced rate of duty compared with that which he formerly paid. But under the old tariff Upper Canada had to pay 3½d against 2d. under the new tariff; consequently the whole difference was thrown against the consumer in Upper Canada, who under the old tariff had to pay nearly 2d. more than the consumer in Lower Canada. I contend, therefore, that it would be wrong to return to a system which pressed hard on one part of the Province, and which cannot be shown to have conferred any benefit on the other. As bearing on this subject I shall quote from a table I hold in my hand which shows the value of different commodities entered last year, and compared with the entries this year, showing the percentage of increase or decrease; for instance, I find in the article of coffee there is an increase of 12½ per cent. in quantity, while the increase of value given is 23½ per cent., or nearly double. On sugars, I find that the increase in quantity is 7 per cent., but the increase in value is 33 per cent. In molasses the increase of quantity is 2½ per cent., and the increase of value is 44 per cent. In the article of tea, I find that—although I have been informed by one of the first houses engaged in the trade that tea was worth actually less in the market in 1855 than it was in 1854—the returns show an increase in the value of the quantity imported of 17 per cent., while the quantity has only increased 10 per cent. The inference I draw from this fact is, that when you take away all inducement for people to conceal the real value of their goods with a view to enter them at a lower rate of duty, you get rid of a great temptation to fraud, and obtain a statement of the true value of the goods imported. It is well known that one of the great grounds of seizure, is the under valuation of goods; and I look on this as a most conclusive argument against the *ad valorem* system. Perhaps it will not be without weight with Hon. Gentlemen opposite, I allude particularly to the Hon. members for Sherbrooke and Montreal, as the friends of a Gentleman who stood high in the estimation of this House, that he had seen reasons very materially to modify his views on the subject of *ad valorem* and specific duties. It is well known that I was always an advocate for specific duties—and on the return of Mr. Hincks to office in 1847, he restored in a

great measure the *ad valorem* ; it will be remembered that in the speech from the throne in 1854, dictated no doubt so far as that portion of it was concerned by Mr. Hincks, the intention to modify the tariff was there distinctly stated. I then requested him to furnish me with a sketch of his plan, and I found that its most marked feature was an abandonment of the mixed system of *ad valorem* and specific duties, in favour of specific duties. I mention this, because I claim now the support of those Gentlemen who regard Mr. Hincks as a good judge—And I believe that I shall be supported in the remark, that Mr. Hincks had made a formal announcement of his change of opinions on the subject. Under these circumstances, I see no reason for returning to the old system. I do not propose therefore to abandon any of our specific duties, for I see no reason why we should revert to a system which however well it may appear in theory is injurious in practice, hurtful to the morals of the country, harassing and vexatious to the importer, and which opens the way to abuses on the part of the officers. I do not know that I need go back upon an argument on which I have already dwelt at some length, but I may make this remark. The direct importers of teas from China have always claimed an exemption from payment of duty on what is called the export duty in China ; but the merchant who imports from New York has to pay an additional rate. I will suppose that the value of tea in China is 6d per lb—the merchant who imports direct pays the duty on 6d, but the merchant who imports from New York, and demands that he should be entitled to enter it at 6d. is told, “ No, you cannot enter it at 6d ; you must pay the duty on the export duty of China, you must pay duty on the freight from China to New York, and you must pay duty on the charges at New York, and even on the commission and profits of the New York importer.” Now, I view the matter in this light : we will be most happy to afford every facility to trade, and to enable the consumer to enter the cheapest market for the purchase of those commodities which he may require ; but we must not lend ourselves to any project for blocking up our neighbour’s gateway. I cannot lend myself to such a principle ; and therefore I say that in calculating all the difficulties with which we are surrounded, and the best way of avoiding them, whatever changes we think necessary, and whatever, under the exigencies of our position, I may be compelled to come down to this House and ask for aid to enable me to carry out, I will not propose any

return to *ad valorem* duties, but continue the present system. The remarks I have made have been confined to the expenditure and the revenue of last year. I now turn my attention to a subject of great importance—one closely connected with the welfare and the best interests of the country. I need not observe that the communications which were published in the papers a few days ago, were received almost like a thunderbolt—I refer to the letters addressed by Mr. Brassey to the President of the Grand Trunk Company in Canada. Whatever may have been the information possessed by certain honorable gentlemen on that side of the House, in regard to the position of that work, we, on this side, were by no means prepared for the views expressed in those letters, the propositions suggested, or the demand made. The subject is one of great difficulty, and I am almost afraid that I cannot approach it without exciting some feeling in the House. Indeed, we have on both sides of the House indulged in so much political fervor in our debates, that I can hardly expect this to be an exception to the rule. But I do not wish to give the slightest occasion for painful feeling, and shall, therefore, confine myself solely to the matter before us. I will not go back beyond the period when we first accepted office—about 18 months ago. On that occasion, it will be remembered, one of the very first measures we brought down to this House was a proposition to spread our guarantee which up to that time was confined to the sections East of Toronto, over the sections west, that the Company might draw a benefit from the use of the guarantee in anticipation of the execution of those lines. This was acceded to by the House, and from £400,000 to £500,000 were released by this action. The next demand, made upon the House last session, was for an addition of £900,000, which raised the total guarantee to 50 per cent, upon the estimated cost from Stratford to St. Thomas. That was also agreed to. At that period, when the bill was passed granting this additional aid, a clause was introduced into the Act, authorizing the Government, with the consent of the Governor in Council to appoint “skilled engineers” to examine the road and take care that the guarantee was not released to a greater extent than the company were entitled to obtain it under the new arrangements. At the time those arrangements were made, it was estimated that £1,800,000 would finish the work from St. Thomas to Stratford, and the House relied upon the Government taking such precautions, in releasing this guarantee, that the work should be proceeded with so as to correspond with the amount

of the guarantee released. Two months ago the unfinished works between those two points was estimated at a sum under £400,000, and the debentures we have at this moment unreleased, amount to £500,000, consequently the Government have on hand as a guarantee against all contingencies, an amount apparently exceeding the estimate cost of the work remaining to be done. I have not yet had an opportunity of examining the report of the engineers appointed by the Government to examine the line ; but it is in the hands of my honorable friend the Attorney General West, who may take an opportunity of remarking upon it. But I understand that they concur in every particular with the estimates furnished by the engineers of the Grand Trunk Railway Company as to the progress of the work. We have now in hand a larger amount than will be sufficient to finish the work. I think, therefore, the House should not be under any apprehension that come what may, the contractors will not be in a position to go on with their engagements. I regret that some doubts exist as to the power of the company and the contractors to carry on their work beyond the two limits of Stratford to the West and St. Thomas to the East. I hope these expectations will be disappointed. I hope the prospect of peace and the restoration of the balance of trade will greatly ease the money market, and enable the company to carry on their work with increased vigour. But I regret, at the same time, that I am bound to admit, that according to their own showing, they feel the pressure of the times, and their position to a certain extent may be considered critical. They have not the same prospect before them of relief that other parties may have in regard to their transactions in the money market, because their position as Contractors is a mixed one, they are not only Contractors for the road but are Shareholders as well. It will be remembered, that at the organisation of the Company one half of the capital stock was reserved from sale and placed at the option of the holders of the A shares, to take or hand them over before the expiration of the year, to the Contractors. The value of these shares having fallen, the option of the company was not to take them, and consequently they were left in the hands of the Contractors. From that period the stock has continued to fall, until it has arrived at a very depressed state. In consequence of the line being commenced in parts altogether unconnected with the great trade of the country, it has been less productive than we have any reason to believe will be the case when the works are finished. The Contractors then, who are

driven to find resources, not only as contractors, but as part of the company, to carry on the great work, which their two-fold position has rendered doubly hard, have submitted the proposition contained in Mr. Brassey's letter. That proposition is one of an unusual character. It proposes that the Government—for the benefits to be derived by Canada from the completion of this line of railway—should guarantee a minimum dividend of 5 per cent. upon the share capital. Such a guarantee on the part of the Province would necessarily embrace the interest on any new loan required to finish the works, as well as the interest on all the existing liabilities of the Company, in fact the interest on a sum not less than ten millions of pounds sterling. It is true that at the end of ninety-nine years the whole of the work would revert to the country. The total amount of our annual liability under such a guarantee would be little short of £600,000 sterling. But it may be contended—and with some force too—that we shall not be called upon to pay the whole of this amount, because whatever accrued as profit from the working of the line, will go to make up part of that guarantee. I do not look upon this as a hopeless enterprise, on the contrary, I look forward with the strongest hopes to the results of the Grand Trunk, when in operation—that it will meet the expectation of Hon. Gentlemen—not the fullest expectations, perhaps, but that it will yet reach a point highly remunerative to the stockholders in England. But it is one thing to entertain bright hopes that the line would pay, and another thing to become guarantee that it will pay. We have, no right, I contend, to enter upon a guarantee of that magnitude, when we must be dependent upon the realization of our expectations for the means to fulfil our engagements. I will now for a moment refer to our financial position, for the purpose of showing that we should not be justified in bringing down a proposition of this kind, however strong our desire to afford relief.—I will refer to the surplus revenues of the Province. I find our surplus revenue for the several past years was as follows: in 1842 we had a surplus of £6000, over and above the expenditure; in 1843, a surplus of £36,000; in 1844, a surplus of £67,000; in 1845, a surplus of £900; in 1846, a surplus of £7,700; in 1847, a surplus of £48,000; and in 1848, there was a deficiency of £94,000. In 1849, there was a surplus of £62,000; in 1850, a surplus of £172,000; in 1851, a surplus of £207,000; in 1852, a surplus of £83,000; in 1853, a surplus of £450,000; in 1854, a surplus of £479,000; and in 1855,

£22,000. It will be perceived that except the two last years, we have had no surplus revenue on which we could rely in entering upon so stupendous an undertaking as the one involved in the correspondence between Mr. Brassey and the President of the Grand Trunk. But I may also observe, in regard to these last two years, the imports were extensive, and the past history of the Province shows that a year of large importations was generally followed by a year of reduced importations. I find that the largest amount of customs revenue prior to 1850, was in 1844. It was then £429,000. It was not however sustained at that, but fell in 1848 to £304,000. In 1849, it rose to £412,000, thus taking from 1844, to 1849 to recover the ground it had lost. In the session of 1849, the customs duties were increased. In 1850 the customs revenue rose to £538,000; in 1852, it was £703,000; in 1853, £986,000; in 1854, £1,168,000 net revenue; in 1855, a gross revenue of £881,000. From these figures then it will be seen that however deeply the Government may feel for the situation of the Grand Trunk Company and the Contractors, it is totally out of their power to entertain the proposition put forth by Mr. Brassey's communication. But, sir, we have a duty to perform. We are under certain pledges, not to the Grand Trunk Company, nor the contractors, but to the public, and these pledges, whatever may be the result to the Grand Trunk Company, I trust the House will strain every nerve to maintain. Within these few hours, I have received a communication from the Vice President of the Grand Trunk Company. He writes, "I have the honor of transmitting a resolution passed at a meeting of the Directors of the Grand Trunk Railway Company, held on the 10th of April, having reference to the present embarrassment of the Company's affairs, and begging that the interest past due, and the interest coming due on bonds issued by the Government to this Company, may be provided for by the London Agent of the Province." He adds, "I have earnestly to beg that you will at the earliest practicable moment submit the communication to the Executive Council, so that action may immediately be taken and the necessary order forwarded to them." That communication tells us that it is no longer a matter of doubt that the Company have been unable to meet the dividend upon their securities, the amount of which is £3,111,500.

Mr. GALT.—Am I to understand that the interest has not been met upon the Provincial Bonds?

Mr. CAYLEY.—I will read the resolution.

Resolved,—That inasmuch as the embarrassed position of the Company's financial affairs compelled the necessity, on the 1st of January last, of seeking advances from its bankers, to sustain the credit both of the Province and of the Company, by the prompt payment of the interest due upon the Provincial Bonds, and in view also of its continued inability to meet these future payments, until the completion of the whole line, including the Victoria Bridge, it is ordered that the Vice-President address a communication to the Hon. Inspector General, begging that instructions be forwarded to the London Agent of the Province, to provide for the interest for the half year due last January, and for the present half year coming due in July next, on the debentures issued by the Province on behalf of this Company, and amounting in the whole to £3,111,500.

I desire strongly to impress upon the House that this is no longer a question of aid to the Grand Trunk Company. It is a question of fulfilling our own engagements—our own pledges to the public which we are bound—come weal come woe, to maintain inviolate. The total amount of liability involved is £225,000, and it is perfectly clear that from any surplus revenue past or expectant, we have not the means of meeting the engagements of the Province—not with the Company—because these debentures have fallen into the hands of parties who have no connexion with the Company, and who look to Canada and Canada alone for payment of the interest and the fulfillment of her engagements. I have dwelt thus strongly upon this subject desiring to impress the view we must take of it. We must moreover deal promptly—we cannot shut our eyes to the position of affairs. I am not prepared to shrink from, nor am I indisposed to face all the consequences of our position. I am prepared to deal with it in good faith to the Province, and in a way in which I hope to be sustained. The Government are prepared to do so, and we hope we shall be sustained by the House. There are three ways by which the unexpected defalcation may be met; first, by direct taxation; second, by the issue of debentures; and third, by increasing our Customs Revenue. In reference to the first, I have no hesitation in expressing my opinion that it would be very distasteful to the country and most dilatory in its operation. As regards the second, the scheme of issuing debentures for payment of interest, is one which I think should be resorted to only in the last extremity. (Hear,

hear.) It would be putting off the evil from day to day, at the expense of our reputation, and the accumulation of our embarrassments. The third, I think, is the only alternative ;—the increase of our customs to such an amount as will enable us to fulfil our engagements to the country. If our estimated revenue is, say in round figures £900,000, and I am not prepared to estimate it at more, because we have within the last year by the operation of reciprocity, and the free list, made permanent reductions upon our former revenues, to an extent not to be replaced for a while at least by ordinary importations. As therefore we derive our revenue from importations, I look forward to no sufficient increase, unless we take steps to effect it by direct legislation. It appears to me that it will require an amount not less than something like an addition of twenty-five per cent. upon the customs of last year to arm us with sufficient means to meet our engagements for the current year. It would be hardly safe to calculate that if we raise the duties 25 per cent we will get an addition of 25 per cent to the entire revenue—because all experience is against such an expectation—but 20 per cent may be realized. If by this means we add £225,000 to our revenue, this would be something less by 10,000*l.* than the demand made upon us to cover all the exigencies of the Grand Trunk. It will be therefore my duty to bring down at an early day, resolutions in conformity with the sketch I have thrown out: and I trust that as I have confined myself solely to the question of meeting these engagements, which, were voluntarily assumed, and for which we have now of necessity to provide, and which I may add, the country in the first instance consented to.—[No, no, from several of the opposition.]—I need not repeat the remark, but will endeavor to confine myself to the proposition I have laid before you. I have just been reminded that I should also state to the House that the Grand Trunk is not the only liability we have to meet. The Northern Railroad has been unable to meet their January dividend—and which the Province has consequently to pay. I may remark also, that the Municipal Loan Fund is in arrear, and that I have reason to expect that we shall not escape the consequences sometimes attendant upon becoming surcty. (Hear, hear.) we shall be called upon, I fear, from time to time to make good the deficiencies of the Loan Fund—but beyond the meeting of the interest upon these loans temporarily when it falls due, I have no reason to believe we will be required to go.

Debate on the Grand Trunk Company resumed on the motion to go into Committee.

Hon. Mr. CAYLEY moved that the House go into Committee of Whole on the following resolutions :—

Resolved,—1. That for the purpose of enabling the Grand Trunk Railway Company of Canada to complete their undertaking, it is expedient to authorize the Governor in Council to carry into effect an arrangement provisionally entered into between the Government of Canada and the said Company, based upon the following terms, viz :—

That the Railway Company shall be allowed to issue Preferential Bonds to the extent of two millions sterling. The holders of such bonds to have priority of claim therefor over the present first lien of the Province.

That such issue shall not take place until the Railway from St. Thomas, Lower Canada, to Stratford, Upper Canada, shall have been finished and in operation.

That the proceeds of the said Bonds shall be paid over to the Provincial Agents in London, and released on the certificates of the Receiver General, upon proof of progress of the work.

That the said proceeds shall be appropriated to the aid or construction of the following works, and in the proportion hereinafter mentioned :

The Railway from St. Mary's to London and Sarnia,	£450,000
The Railway from St. Thomas, L. C., to Rivière-	
du-Loup.....	525,000
Victoria Bridge.....	800,000
Three Rivers and Arthabaska.....	125,000
To enable the Grand Trunk to assist subsidiary lines,	
such as the Port Hope, Cobourg and Prescott....	100,000
	<hr/>
	£2,000,000

That the St. Mary's and London branch and subsidiary lines shall be completed by the... 1st Sept. 1857.
 Stratford and Sarnia..... 1st Sept. 1858.
 Arthabaska and Three Rivers..... 1st Sept. 1859.
 The Victoria Bridge..... 1st Jan. 1860.

St. Thomas and Rivière-du-loup line as follows :

From St. Thomas to Rivière Ouelle,..... 1st Jan. 1859.
 From Rivière Ouelle to Rivière-du-Loup..... 1st Jan. 1860.

That in order to restore to the Trois Pistoles Road, the guarantee diverted from it by the Act of 1854 and expended on the Toronto and Stratford section, there shall be reserved from the proceeds of the Preferential Bonds, as they are paid over to the Provincial Agents, such a portion for the section of the Road from St. Thomas to Rivière-du-Loup, as shall ensure its progress equally with the other works above mentioned.

That the interest accruing on the Provincial bonds during the period of five years, being the time necessary for the completion of the works and for the development of the through traffic, shall be advanced by the Province, and such advances as they are made shall be repaid to the Province in share capital of the Company.

That the lien of the Province, subject to the preceding condition, shall rank, as to dividend or interest, with that of the Company's bond-holders."

Hon. Mr. CAYLEY then proceeded to address the House, and said, the Grand Trunk Railway, opening Canada through its entire length from Sarnia in the West to St. Thomas in the East, and forming a most important channel of communication for the development of the trade and traffic and resources of the country, must be looked upon as second to no enterprise which Canada could encourage. I was anxious therefore to bring forward these resolutions, not with the view of meeting this or that interest, as had been said, or of putting down this or that opposition, but in the interests of Canada as a whole. It was well known that the Grand Trunk Company had most emphatically declared their inability to go on with the line, without some aid. The resolutions I hold in my hand fall short of the aid which the Company had asked but whatever might be the desire of the Government and of the House to offer aid, I feel that the country is not in a position to offer the entire aid sought for by the Company—viz., the assumption on its own responsibility of the engagements of the Company, and a guarantee of a minimum dividend on the share capital. These engagements consisted of Provincial bonds to the amount of £3,111,500, Company's bonds, £2,145,000, and share capital to the extent of about £4,000,000 more, besides the new aid contemplated of about £2,000,000, so that the total amount expected to be guaranteed by the Province would be about Ten Millions of money. Now, whatever might be the prospective advantages looked for from the construction of the Grand Trunk, it was clear that for a young country like Canada,

with a revenue varying from £800,000 to £1,200,000, in prosperous years, to undertake from this period the payment of interest on 10 millions of money, amounting to £600,000 per annum ; or one half of the whole revenue of the country in the most prosperous years, would be an undertaking little short of the most extravagant rashness, that any Legislature could be guilty of. I look forward with the greatest confidence to the line being ultimately valuable and productive ; but I feel that the aid to be offered to the Company must be kept within reasonable bounds and not as would be justified on a full and impartial investigation of their position and claims. If we undertook to grant all the aid sought, we would be charging Canada with a very large additional burden, and hon. gentlemen knew the difficulties which would stand in the way of this from having witnessed the manner in which the proposition to increase the Customs duties 20 per cent. was met the other day. The Province, however, had already assumed the responsibility for a certain amount of bonds, which had passed out of their hands, and were held now we do not know by whom. They had passed from hand to hand as securities of the Province, for which it was liable, whatever might be the fate of the Grand Trunk. For these engagements the country had made provision, and I have no doubt the resources of the country were ample enough to meet them all in time to come. The aid now proposed to be given was little more, if strictly examined, than the permission to raise money on the security of the work itself. I propose in the first instance to secure the re-payment of that interest, which in the meantime, must be met on the bonds the Province had issued, by taking share capital from the Company—(opposition cheers)—each half year or each year, as we paid the interest, so that we would hold in hand an amount of share capital, representing the amount of interest advanced on behalf of the company. If I understood the cheers on the other side of the House, hon. gentlemen opposite were disposed to regard this share capital as a very imperfect representative of the money to be paid out by the Province. I am not prepared to debate that, and it is unnecessary that I should do so, because we were bound to pay the interest by our own voluntary engagement, and the question was, were we not taking the best security the Company could offer for the re-payment of that interest ? The question was not, whether it was an entire security, but whether we were not taking the best security the company could give. It would

depend on the profitable character of the road whether it was worth anything or not, but when we took the share capital, we would at the same time secure a representative of the money advanced, and give confidence to capitalists at home, by shewing that the Province looked upon the stock as a valuable security, (opposition ironical cheers) and I believe that that expression of confidence would give it a value in the market, and enable the Province, if it saw fit, to dispose of that stock, and realize if not the whole amount at par, yet a very considerable amount upon it. If we were to sell it, it would probably represent 70 or 80 or 90 per cent upon the amount advanced. At the time when the proposition was first entertained in England that Canada should aid the Grand Trunk Company to the full extent of its need, the stock rose from the nominal value of £7 or £7 10s. to £15 on £22 10s. paid up, so that the value of the stock in expectation of aid from the country, rose to between 60 and 70 per cent. Assuming its value then at 70 per cent, the total loss would be £300,000, if the Province took a million of share capital in exchange for advances of interest. If then by this course confidence was restored in the stock to the shareholders and the English share market, we at the same time lessened the risk to ourselves, by giving aid in that shape. The next point was the position in which we propose to place their guarantee. It was proposed to authorize the Grand Trunk Railway to place a first charge of two millions of money on the road, on the condition that those two millions should be laid out on certain sections of the road, and to that extent the charge or claim of the Province was postponed. The object of this arrangement was that, while they declined increasing the engagements of the Province, they would not stand in the way of the Company's raising funds for those sections of the road which would make it a paying concern. But in enabling the Company to raise those two millions, by making them a first charge, it was necessary to consider the position of the Company's bondholders. In addition to the £3,111,500 of bonds which the Company had received from the Province of Canada, they had borrowed in England £2,145,000, on what were called the Company's bonds, which formed a second charge. If then the Province were to maintain its position still in advance of the Company's bondholders, it might appear to those bondholders that they were placed at a great disadvantage. With the view, therefore, of preventing any difficulty of that nature from becoming, perhaps, an insuperable

obstacle to raising money on the Grand Trunk property, it was proposed after the Company had raised the two millions, and completed the line from Stratford to St. Thomas, and made provision for the payment of interest on the Provincial guarantee for five years, that after that period the Province should stand on an equal footing with the Company's bondholders, sharing with them in such dividends as the road would furnish when in full working order. It was clear that if, at the end of five years, when the road was finished and in full working order, it was unable to pay the interest on its engagements, then the Provincial security would be of little value, unless they used it to foreclose the mortgage and cut out other parties, who had advanced their money towards the construction of this great enterprise. I should be extremely loath to see the Province of Canada at any future day placed in this position.

Mr. BROWN.—Hear ! hear !

Mr. CAYLEY said, I was going on to remark that I should be sorry that Canada should look forward at any period to foreclosing a mortgage like this, for the purpose of cutting out other parties who had advanced the capital from which Canada was to derive a permanent benefit. The Province had laid out five millions of money on other public works in Canada, on the Welland Canal, the St. Lawrence Canals, &c., and I would ask whether all these Canals were not constructed with the public money with the full knowledge that they would not repay six per cent. of interest, but that they would repay the money tenfold by the opening of our channels of communication, so as to enable us to carry our products to the seaboard, and to import direct from foreign countries. I view the Grand Trunk Railway of Canada, as standing in precisely the same important and valuable position in regard to our communications, and of the same value to Canada, as the canals, being in some respects superior to them. If, within the last few weeks, even when we felt severely the pressure of pecuniary demands, it had been urged by men of high commercial reputation, that we should go on further with the Canal system, the same arguments which were then used, were applicable with double force to this Grand Trunk Railway scheme, and they should not shut their eyes to the fact, that the Grand Trunk was one of the chief sources of strength on which Canada was to rely for the developement of her material wealth. It was a matter of less moment whether Canada got her last pound of flesh, her cent. per cent. of interest in the shape of

money, if only she got a Railway of this importance completed, and the necessary ramifications carried back into the interior, to enlarge our trade, and enable us to carry our staple products to market. I have observed, as every one must have done who has heard this subject discussed within the last four or five weeks, the strange arguments urged in opposition to the construction of the line through that part of the country which we are told will be wholly unprofitable, that is to say the line of road east of Quebec. But I must call the attention of the house to the fact, that the present Government did not hold itself responsible for the selection of the line either on the north or the south side of the St. Lawrence, although the present Government did hold itself responsible that all engagements entered into in good faith, should be executed in good faith; and I hold a note in my hand written by the President and Manager of the Grand Trunk Company, to the representatives in Parliament of that section of the country through which the line east of Quebec was to run, recognizing the obligation of the Company to build that very section of road which the Government were charged with having proposed for the purpose of purchasing support. When in 1854, an application was made to Parliament to advance the guarantee to lines of the Grand Trunk west of Toronto, an arrangement had to be made by the company, with the parties who had claims for the construction of a line east of Quebec to forego their claim on the guarantee for a while. It must be in the recollection of this house, that the Provincial guarantee of £3,000 per mile, was promised on the line of road from Quebec to Trois-Pistoles, and secured by law. To obtain, then, the consent of those parties who had an interest in that part of the country,—to a diversion of this guarantee to a part of the road which had no claim to it—it became necessary that the Grand Trunk Company should renew their engagements with these gentlemen, and give assurances that while they postponed for a time the construction of the road from Quebec, eastward, they would not abandon it altogether.

They, therefore, wrote this letter, dated

QUEBEC, November 22, 1854.

DEAR SIRs,—We beg on behalf of the Board of the Grand Trunk Railway Company of Canada, to give you this Pledge and Undertaking that the line from St. Thomas to L'Islet will be completed and opened for traffic on or before the 1st January, 1857, and that the line from L'Islet to Rivière Ouelle will be completed and opened for traffic on or before the 1st January, 1859.

You are aware that under the powers of our present Bill, we can only get an extension of time for the construction of any portion of the Railway by authority of the Governor in Council, and we hereby authorize you to lodge this letter with the Provincial Secretary, in order that it may be a bar to the Company obtaining any extension of time for the portion of the Railway above mentioned beyond the times we have above indicated.

We are, Dear Sirs,

Yours faithfully,

(Signed) JOHN ROSS,
President.

C. P. RONEY,
Managing Director.

J. C. CHAPAIS, Esq., M.P.P.

Jos. CAUCHON, Esq., M.P.P.

Now, here is a distinct pledge that the Company would not ask for an extension of time beyond 1st Jan., 1857; to complete the line from St. Thomas to L'Islet, nor beyond 1st Jan. 1859, to complete the road to Rivière Ouelle, and it was lodged in the hands of the Provincial Secretary as a bar to any future application for and on the part of the Company. I would ask with what face could the Government now come down and ask for aid to the Company, unless it brought under consideration this pledge, given in the most solemn manner, to carry out the contract entered into to complete the road to Trois-Pistoles.

Hon. J. S. McDONALD—You concealed that from Parliament, when you asked for the £900,000.

Hon. Mr. CAYLEY replied, that letter was put in my hands no long time back, and certainly not so far back as 1854 or 1855. It brought under the notice of the Government, in the most distinct manner, the claim of that part of the Province for the completion of the engagements entered into by the Company, and it would have been a breach of good faith to ask Parliament for aid and an extension of time if, at the same time, the engagements of the company were not carried out in the clearest and most prompt manner. It is not necessary for me to point out what part of the road would be profitable or unprofitable where distinct engagements had been entered into. No part of it can be profitable till the road be completed, and the trade and resources of the country have had time to become developed. So much for that section of the line east of St. Thomas. With regard to the line in the west, from

Stratford to Sarnia, I do not believe that it will be necessary for me to go so much into detail. There was no doubt that in making the line to Sarnia, a communication would be secured which was likely to prove extremely profitable to the company, and in giving aid to the company to render the line a profitable one, a promise was given that the expenditure incurred by this country would be redeemed. There were five other lines of road mentioned in the resolutions, and I would state that the Government in inserting those lines, conveyed nothing more than a permission to enable the Grand Trunk Company to aid those lines, if they could come to an arrangement with the parties on whose hands they were. And I would mention that when in London last year, I had an opportunity of meeting several gentlemen who were favourable to a scheme for the connection of London with St. Mary's by Railroad, and subsequently a deputation had come down to confer with the Grand Trunk Board here, and ascertain if the Grand Trunk Company would entertain a project for the construction of that line, and they held out their assurances of hearty co-operation, and the certainty that it would be a profitable undertaking. I conceived it to be the duty of the Government to authorize the company to raise money for the construction of any line which would have the effect of making the whole work profitable, for it was the interest of Canada to make the line a paying one. An objection had been raised by the Great Western Company to this connection between London and St. Mary's. And why? because that company feared that the effect of that connection would be to draw a considerable trade to the Grand Trunk. But if the Grand Trunk was in a position to make that connection, and had a right to do so without a breach of faith, that was the very best argument that could be used to authorize the Grand Trunk to make it. But I do not wish to be misunderstood. I do not believe that the Grand Trunk Company were bound by any engagement with the Great Western. An engagement had been projected in London, but it had been broken off here; and no such engagement now existed. I do not propose that the company should have power to break any engagement which really existed or was supposed to exist, nor to compel it to construct any of the five lines which I have last referred to. I propose merely to grant them permission to raise money for the completion of their actual engagements, or for such other works as might be deemed profitable. Now, with regard to the lines from Cobourg to Peterboro, from Port Hope to Lindsay, and from Prescott to Ottawa, Mr. Napier expressly desired to

confer with the gentlemen representing the sections of the country traversed by those lines, and, at his invitation, eighteen of those gentlemen, taken from both sides of the house, met Mr. Napier at his office, and they explained their views as to what step should be taken to put the various lines in good working order in connection with the Grand Trunk. Mr. Napier said that the Company was now lifeless; that it expected aid from Canada to revive its energies and give it new life, and if it could be resuscitated it would willingly work in harmony with those lines; and he asked for some statistics showing the number of miles in working order, the number of miles of country opened up by those roads, and the population, and I believe that those statistics had been furnished to Mr. Napier, but I have not seen them. I am free to admit that the Government has not met the wishes or expectations of any of the gentlemen connected with those lines, for they expected that if aid was given it would be in a different shape. But the Government considered that it was for the interest of Canada, and of the company, that they should bring forward such a proposition as I now submit to the house. The extent to which I feel myself warranted in going is solely to give a permissive power to the company to raise money for the purposes I have mentioned. I cannot promise that the company will undertake to form an amalgamation with those lines, though they might look on them with great favour as aids and tributaries. For instance, a very material portion of the profitable returns from the road between Montreal and Brockville arose from the tributary traffic on the Prescott and Ottawa road. With regard to the extension of the road from Arthabaska to Three-Rivers, the first intimation I had that a road in that neighbourhood would be desirable was from Mr. Ross, the Company's engineer, who informed me that such a line would be a very valuable aid, as it would take all the country north of the St. Lawrence, and yield a large return; that the neighbouring townships would contribute £75,000 towards its construction, and for that reason the aid of £125,000 was proposed. It was because I had every reason to believe, from the information that I had received, that that road would be a source of profit, that I had inserted it in this resolution; and I would say further, that I had not been urged to do so by a single member of the house. The largest sum proposed to be given to any one work by these resolutions, was the sum of £800,000 to aid in the construction of the Victoria Bridge. The cost had been estimated at £1,400,000, and £300,000

had been laid out already. The contractors had agreed to take the unissued series of Bonds in part payment, and the rest of the cost would be defrayed by this £800,000. For myself, I would say, that I am by no means disposed to undervalue the importance of that bridge to complete the line of communication between the sections on the northern side of the river and those on the southern side leading to the seaboard. At present the communication between Montreal and the southern side of the river was exposed to interruptions from ice and frost. At certain seasons of the year that communication was interrupted altogether, and I do not attempt to conceal from myself the great importance of having a certain instead of an uncertain and insecure means of communication established. Some allusion had been made by the hon. member for Lambton to his having warned us of this result. I might remind that hon. member that I have stated, that had the demand been made in the first instance, for the Grand Trunk as it was for the Great Western and the Northern Railway Companies, it would be to the interest of Canada to accede to the demand, and I say so yet. I say that if Canada could obtain the construction of this line at the cost of half its value, it would be a most profitable expenditure of money. I might also say that looking back on the past, I have nothing to regret in that expression of opinion. I do not yet know why a distinction to the prejudice of the Grand Trunk, had been made between the aid given to it and to the Great Western and Northern Railway Companies. I think a line that traversed the whole extent of Canada was the one best entitled to aid from the Province. Probably in the course of the debate enquiries would be made, and questions put, which might render it necessary for me to address the house again ; and I would now move that the Speaker do leave the chair, and that the house resolve itself into committee to take into consideration certain resolutions to give aid to the Grand Trunk.

On going into Committee on Grand Trunk Railway.

Mr. CAYLEY entered at considerable length into the origin and progress of the Grand Trunk, its amalgamation with the various lines then in progress, and the formation of the company contemplating the completion of works involving an outlay of £9,500,000, comprising share capital to the extent of £4,864,800 ; Bonds of the Company, £2,223,700, and Provincial Bonds, £2,211,500. The original application of this capital was on the St. Lawrence and At-

lantic Road,—142 miles at £8,500 per mile, £1,258,000—Quebec and Richmond, 100 miles, at £6,500 per mile, £650,000 ; Extension to ditto, £50,000, in all £700,000 ; Montreal to Toronto, 345 miles, £3,000,000 ; Trois Pistoles, 153 miles, of which 43 miles, from St. Thomas to Quebec, had been built, £375,000 ; Toronto to Stratford, £1,040,000 ; Victoria Bridge, £1,400,000 ; and contingencies, £142,000.—This was the original scheme. The hon. gentleman then referred to the arguments used last session to induce the Legislature to grant an additional aid of £900,000. From that period to the present the Company had proceeded with their works. The road was opened to Guelph and Brockville, and there was every prospect of its being opened to Stratford in a few weeks, and then the sole portion of the line to be opened under the arrangements, would be from Brockville to Toronto. By the estimate made to the 1st of April the cost of completing the road under contract was £316,000 sterling. All the unfinished work on the 1st of April was estimated at £316,000. On the aid being granted in the spring of 1855 the government were called upon to take every precaution that no larger amount should be released to the Company than 75 per cent upon the work as it progressed, and care was taken to carry out that precaution. It had been made a cause of complaint against the Government and against himself specially, that he had kept too much back. The cost of the work when completed would amount to £7,862,400, while its estimated cost was only £6,677,000, shewing a loss of £1,184,576. This excess of expenditure over the estimated cost of the line was attributable to two causes, first the large amount of interest paid by the Company during the progress of the work and before any returns of traffic could be realized, and secondly to the large disbursements made by the Company on the roads received over by them, namely, the St. Lawrence and Atlantic and the Atlantic and St. Lawrence to place them in working order, that expenditure is stated in the correspondence of the 30th January, 1855, between Sir Morton Peto and the Directors of the Company at £800,000, and to that extent the fund relied on for carrying on the works under contract was deficient. The hon. member for Lambton stated in the course of his remarks that the shareholders were entitled to sympathy. (Mr. Brown—I said some of them, those who were the victims of misrepresentation.)

Mr. CAYLEY.—I adopt the qualification, those who were the victims of misrepresentation—and who were they ? Those who had been dazzled by the brilliant prospects held out in the pros-

pectus—eleven and a half per cent dividend, the minimum rate of profit to be realized from the road. (Mr. Brown and Mr. Holton—And who are responsible for that statement?) Mr. Cayley—Not the Shareholders who knew nothing of Canada, not the Provincial Agents, Mr. Baring and Mr. Glyn, whose knowledge was derived from others, not Mr. Hincks who was not in England at the time.—(Question, who then?) Mr. Cayley—Ask the honorable member for Sherbrooke. I desire to impute blame to no one, but certainly the shareholders were entitled to sympathy. Who could have advised the purchase of the St. Lawrence and Atlantic section at some hundred and thirty per cent, when the stock was actually worth but forty-five? Great blame had been attached to the scheme of withholding half the stock from sale when the shares were first placed in the market, but who would now say what would have been the result had the stock been all placed in the market at once. Perhaps the whole scheme involving the outlay of nine and a half millions would have fallen to the ground. One thing however was clear that after the announcement in the Prospectus that one half of the stock would be reserved from sale, it was not competent for the Provisional Directors to extend the sales upon the plea that buyers were to be found for the whole stock. As for the English contractors, the correspondence and the several modifications of the contracts between them and the Company clearly shewed that they had at all times been ready to fulfill their part of the engagements, and that it was the Company and not the Contractors who had from time to time sought those modifications, driven to that course by the absorption of their means through the causes already referred to. According to the returns which I have obtained, I find that the Company had on hand “B” shares unsaleable to the amount of £1,300,000, and “B” Bonds of £400,000 worth about 85 per cent. It appeared that the Company had been obliged from time to time to ask to modify their engagements with the Contractors, so as to enable them to meet their engagements. The Company had been obliged to apply their capital to roads in which the English Contractors had no interest, and had been thus deprived of the means to meet their engagements with the Contractors, and consequently had to ask them to make their terms more easy to enable the Company to meet them. At the present time the Company were unable to meet their interest on the Provincial Bonds. A communication had just been received from the English Contractors, tendering to surrender to the Company all

their contracts upon condition that the Company paid for the work done, the price which might be put upon it by fair valuation of competent engineers. They wished to give up all connection with the Canadian work upon the value being ascertained, and the amount which their work was worth, paid them.

Mr. BROWN inquired who would pay them?

Mr. CAYLEY replied, the Company. They say to the Company, "You tell us that our works are too expensive—we are willing to be released from them upon payment of their estimated value." It appears then that all the money to be received from the guarantee would be absorbed in finishing the road from Stratford to St. Thomas. All the amounts due to the Company on share capital, every instalment being paid, would be absorbed, and the Company threw themselves upon the Government. The proposition of the Government was, to authorize the Company to raise, by preferential bonds, a sum of money necessary to complete the works in progress. To enable the Company to raise money, the "B" shares undisposed would be received on account of interest by the Province, for it appears to me that one great cause of the depreciation of those shares arose from the fact that the works were unfinished, there was no terminus in the West, no bridge at Montreal, and no link from Toronto to Brockville, and therefore the line was totally unproductive. The hon. gentleman then referred to several great works which had been undertaken by private capital, which had all proved ruinous to their projectors, but ultimately when national aid was given, had proved most profitable works. The New River Canal to supply London with water, was undertaken by Sir Hugh Middleton, who was ruined in the enterprise. The Bridgwater Canal, now one of the most profitable works in England, absorbed the whole of the large fortune of the Earl of Bridgwater and the attempt of Mr. Roscoe to drain the extensive marshes between Liverpool and Manchester, also proved ruinous until taken in hand by another Company. These enterprises were all too extensive to be undertaken by private capital, so in like manner had this Grand Trunk enterprise been undertaken by private Capitalists in Canada only, it would in all probability have ruined all who took part in it. How then did they stand in relation to it? Were they to be indifferent to its completion? Was it a matter of no moment to them whether it was finished or not? They could not be indifferent to it, because it affected the interests of Canada most materially to have this work completed at almost

any cost. It was worth a struggle to secure the completion of a road which would pay ten times the amount which Canada had been called upon to pay in opening up its extreme length from East to West. The hon. member here referred at some length to the remarks of the hon. member for Glengarry, and the hon. member for Lambton, when the question was under consideration a few days before. He contended that the money formerly entrusted to the Government by this House to be applied to this work had been carefully husbanded, and that was the best pledge which they could give that if more money was entrusted to them it would be equally well taken care of. He concluded by quoting the following from the correspondence of the hon. Wm. Napier, the agent of the English shareholders. "Looking forward, however, with confidence to brighter prospects within the next two years, I venture to express an opinion that the sum of £2,000,000 should be the maximum amount permitted to be raised by the Company by preferential Bonds, for all the purposes of present engagements (by arrangements with and under the control of the Government) and including the extra expenses, and the works and assistance additionally suggested by the Government shall, in the case of the additional Lines of Railway detailed in your memorandum of the 6th instant, give to the company every assistance in their power, with the various Municipalities interested, and who shall be ready to afford their aid."



